CALIFORNIA STATE AUDITOR

State of California:

Financial Report
Year Ended June 30, 2009

March 2010 Report 2009-001

Independent NONPARTISAN
TRANSPARENT Accountability

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Elaine M. Howle
State Auditor

Doug Cordiner
Chief Deputy

CALIFORNIA STATE AUDITOR
Bureau of State Audits

555 Capitol Mall, Suite 300 Sacramento, CA 95814 916.445.0255 916.327.0019 fax www.bsa.ca.gov

March 10, 2010 2009-001

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

The Bureau of State Audits presents its Independent Auditor's Report on the State of California's basic financial statements for the fiscal year ended June 30, 2009. These financial statements are presented on a basis in conformity with generally accepted accounting principles (GAAP). The financial statements show that the State's General Fund had revenues and other financing sources that were approximately $11.9 billion less than expenditures and other financing uses. The General Fund ended the fiscal year with a fund deficit of approximately $16.1 billion. The GAAP basis government-wide statements include all liabilities owed by the State while the budgetary basis statements used to report on the State's budget do not reflect all liabilities.

We conducted the audit to comply with the California Government Code, Section 8546.4.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

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Independent Auditor's Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2009, which collectively comprise the State of California's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of California's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following significant amounts in the financial statements of:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 94 percent, 69 percent, and 41 percent, respectively, of the assets, net assets, and revenues of the business-type activities.

- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, Public Employees' Benefits, and certain other funds that, in the aggregate, represent over 99 percent of the assets, net assets, and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.

- Certain nonmajor enterprise funds that represent 95 percent, 92 percent, and 89 percent, respectively, of the assets, net assets, and revenues of the nonmajor enterprise funds.

- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System that, in the aggregate, represent 88 percent, 92 percent, and 73 percent, respectively, of the assets, net assets, and additions of the fiduciary funds and similar component units.

- The discretely presented component units noted above.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those funds and entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will issue separate reports on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide opinions on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, schedule of funding progress, infrastructure information, budgetary comparison information, reconciliation of budgetary and GAAP-basis fund balances, and related notes are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United State of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of California's basic financial statements. The combining financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we express no opinion on them.

BUREAU OF STATE AUDITS

John F. Collins II

JOHN F. COLLINS II, CPA
Deputy State Auditor

February 12, 2010

Management's Discussion and Analysis

The following Management's Discussion and Analysis is a required supplement to the State of California's financial statements. It describes and analyzes the financial position of the State, providing an overview of the State's activities for the year ended June 30, 2009. We encourage readers to consider the information we present here in conjunction with the information presented in the Controller's letter of transmittal at the front of this report and in the State's financial statements and notes, which follow this section.

Financial Highlights – Primary Government

Government-wide Highlights

During 2009, California, like the nation, confronted what could have been the most severe economic downturn since the Great Depression. As a result, the State's general revenues decreased 13.3% from last year, primarily in revenue received from personal income tax and sales and use taxes. However, expenses for the State's governmental activities grew by 2.4%, resulting in a $17.9 billion decrease in governmental activities' net assets. Total expenses for the State's business-type activities also exceeded revenues for the year, primarily because unemployment benefits paid exceeded employers' contributions. Reduced general revenues and increased expenses and long-term obligations resulted in a 70.0% decrease in the total net assets for governmental and business-type activities from the 2007-08 fiscal year.

Net Assets — The primary government's net assets as of June 30, 2009, were $9.8 billion. After the total net assets are reduced by $83.2 billion for investment in capital assets (net of related debt) and by $12.2 billion for restricted net assets, the resulting unrestricted net assets totaled a negative $85.6 billion. Restricted net assets are dedicated for specified uses and are not available to fund current activities. Almost two-thirds of the negative $85.6 billion consists of $51.8 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. The bonded debt reduces the unrestricted net assets; however, local governments, not the State, record the capital assets that would offset this reduction.

Changes in Net Assets — The primary government's total net assets decreased by $22.9 billion (70.0%) during the year ended June 30, 2009. Net assets of governmental activities decreased by $17.9 billion (76.9%), while net assets of business-type activities decreased by $5.0 billion (53.1%).

Fund Highlights

Governmental Funds — As of June 30, 2009, the primary government's governmental funds reported a combined ending fund balance of $8.5 billion, a decrease of $4.2 billion from the prior fiscal year. After the total fund balance is reduced by $29.7 billion in reserves, the unreserved fund balance totaled a negative $21.2 billion.

Proprietary Funds — As of June 30, 2009, the primary government's proprietary funds reported combined ending net assets of $4.8 billion, a decrease of $5.1 billion from the prior fiscal year. After the total net assets are reduced by $35 million for investment in capital assets (net of related debt) and expendable restrictions of $3.9 billion, the unrestricted net assets totaled $925 million.

Noncurrent Assets and Liabilities

As of June 30, 2009, the primary government's noncurrent assets totaled $130.0 billion, of which $103.5 billion is related to capital assets. State highway infrastructure assets of $59.2 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $125.6 billion, which consists of $67.4 billion in general obligation bonds, $29.6 billion in revenue bonds, and $28.6 billion in all other noncurrent liabilities. During the 2008-09 fiscal year, the primary government's noncurrent liabilities increased by $18.5 billion (17.2%) over the prior fiscal year. This large increase was the result of $15.4 billion in new general obligation bonds issued primarily for construction of education facilities and transportation projects, a $2.4 billion increase in net other postemployment benefits obligations, and a $1.9 billion unemployment programs loan payable to the U.S. Department of Labor.

Overview of the Financial Statements

This discussion and analysis is an introduction to the section presenting the State's basic financial statements, which includes four components: (1) government-wide financial statements, (2) fund financial statements, (3) discretely presented component units financial statements, and (4) notes to the financial statements. This report also contains required supplementary information and combining financial statements and schedules.

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the State's finances. The government-wide financial statements do not include fiduciary programs and activities of the primary government and component units because fiduciary resources are not available to support state programs.

To help readers assess the State's economic condition at the end of the fiscal year, the statements provide both short-term and long-term information about the State's financial position. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to methods used by most businesses. These statements take into account all revenues and expenses connected with the fiscal year, regardless of when the State received or paid the cash. The government-wide financial statements include two statements: the Statement of Net Assets and the Statement of Activities.

- The *Statement of Net Assets* presents all of the State's assets and liabilities and reports the difference between the two as net assets. Over time, increases or decreases in net assets indicate whether the financial position of the State is improving or deteriorating.

- The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. The State reports changes in net assets as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, this statement reports revenues and expenses for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

The government-wide financial statements separate into different columns the three types of state programs and activities: governmental activities, business-type activities, and component units.

- *Governmental activities* are mostly supported by taxes, such as personal income and sales and use taxes, and intergovernmental revenues, primarily federal grants. Most services and expenses normally associated with state government fall into this activity category, including health and human services, education (public kindergarten through 12th grade [K-12] schools and institutions of higher education), business and transportation, correctional programs, general government, resources, state and consumer services, and interest on long-term debt.

- *Business-type activities* typically recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the State of California include providing unemployment insurance programs, providing housing loans to California veterans, providing water to local water districts, providing building aid to school districts, providing services to California State University students, leasing public assets, selling California State Lottery tickets, and selling electric power. These activities are carried out with minimal financial assistance from the governmental activities or general revenues of the State.

- *Component units* are organizations that are legally separate from the State, but are at the same time related to the State financially (i.e., the State is financially accountable for them) or the nature of their relationship with the State is so significant that their exclusion would cause the State's financial statements to be misleading or incomplete. The State's financial statements include the information for blended, fiduciary, and discretely presented component units.

  - *Blended component units*, although legally separate entities, are in substance a part of the primary government's operations. Therefore, for reporting purposes, the State integrates data from blended component units into the appropriate funds. The Golden State Tobacco Securitization Corporation and certain building authorities that are blended component units of the State are included in the governmental activities.

  - *Fiduciary component units* are legally separate from the primary government but, due to their fiduciary nature, are included with the primary government's fiduciary funds. The Public Employees' Retirement System and the State Teachers' Retirement System are fiduciary component units that are included with the State's pension and other employee benefit trust funds, which are not included in the government-wide financial statements.

  - *Discretely presented component units* are legally separate from the primary government and provide services to entities and individuals outside the primary government. The activities of discretely presented component units are presented in a single column in the government-wide financial statements.

Information on how to obtain financial statements of the individual component units is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, CA 94250-5872.

Fund Financial Statements

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of California, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. Following are general descriptions of the three types of funds.

- *Governmental funds* are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements. This approach is known as the *flow of current financial resources measurement* focus and the *modified accrual basis of accounting*. These governmental fund statements provide a detailed short-term view of the State's finances, enabling readers to determine whether adequate financial resources exist to meet the State's current needs.

  Because governmental fund financial statements provide a narrower focus than do government-wide financial statements, it is useful to compare governmental fund statements to the governmental activities information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Reconciliations located on the pages immediately following the fund statements show the differences between the government-wide statements and the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances. Primary differences between the government-wide and fund statements relate to noncurrent assets, such as land and buildings, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund-based statements.

- *Proprietary funds* show activities that operate more like those found in the private sector. The State of California has two proprietary fund types: enterprise funds and internal service funds.

  - *Enterprise funds* record activities for which a fee is charged to external users; they are presented as business-type activities in the government-wide financial statements.

  - *Internal service funds* accumulate and allocate costs internally among the State of California's various functions. For example, internal service funds provide information technology, printing, fleet management, and architectural services primarily for state departments. As a result, their activity is considered governmental.

- *Fiduciary funds* account for resources held for the benefit of parties outside the State. Fiduciary funds and the activities of fiduciary component units are not reflected in the government-wide financial statements because the resources of these funds are not available to support State of California programs. The accounting used for fiduciary funds and similar component units is similar to that used for proprietary funds.

Discretely Presented Component Units Financial Statements

As discussed previously, the State has financial accountability for discretely presented component units, which have certain independent qualities and operate in a similar manner as private-sector businesses. The activities of the discretely presented component units are classified as enterprise activities.

Notes to the Financial Statements

The notes to the financial statements in this publication provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, which describe particular accounts in more detail, are located immediately following the discretely presented component units' financial statements.

Required Supplementary Information

A section of required supplementary information follows the notes to the basic financial statements in this publication. This section includes a schedule of funding progress for certain pension and other postemployment benefit trust funds, information on infrastructure assets based on the modified approach, a budgetary comparison schedule, and a reconciliation of the budgetary basis and the GAAP basis fund balances for the major governmental funds presented in the governmental fund financial statements.

Combining Financial Statements and Schedules

The Combining Financial Statements and Schedules – Nonmajor and Other Funds section presents combining statements that provide separate financial statements for nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor component units. The basic financial statements present only summary information for these activities.

Government-wide Financial Analysis

Net Assets

The primary government's combined net assets (governmental and business-type activities) decreased 70.0%, from $32.7 billion as restated at June 30, 2008, to $9.8 billion a year later.

The primary government's $83.2 billion investment in capital assets, such as land, building, equipment, and infrastructure (roads, bridges, and other immovable assets) comprise a significant portion of its net assets. This amount of capital assets is net of any outstanding debt used to acquire those assets. The State uses capital assets when providing services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, the resources needed to repay this debt must come from other sources because the State cannot use the capital assets themselves to pay off the liabilities.

Another $12.2 billion of the primary government's net assets represents resources that are externally restricted as to how they may be used, such as resources pledged to debt service. Internally imposed earmarking of resources is not presented in this publication as restricted net assets. The State may use a positive balance of unrestricted net assets of governmental activities to meet its ongoing obligations to citizens and creditors. As of June 30, 2009, governmental activities showed an unrestricted net assets deficit of $86.3 billion and business-type activities showed unrestricted net assets of $718 million.

A large portion of the negative unrestricted net assets of governmental activities comprises $51.8 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. Because the State does not own these capital assets, neither the assets nor the related bonded debt is included in the portion of net assets reported as "investment in capital assets, net of related debt." Instead, the bonded debt is reported as a non-current liability that reduces the State's unrestricted net assets. Readers can expect to see a continued deficit in unrestricted net assets of governmental activities as long as the State has significant outstanding obligations for school districts and other local governmental entities.

Table 1 presents condensed financial information derived from the Statement of Net Assets for the primary government.

Table 1

Net Assets – Primary Government
June 30, 2008 and 2009
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2009	2008*	2009	2008*	2009	2008*
ASSETS						
Current and other assets	$ 48,369	$ 48,376	$ 28,752	$ 32,207	$ 77,121	$ 80,583
Capital assets	96,593	95,360	6,859	6,841	103,452	102,201
Total assets	**144,962**	**143,736**	**35,611**	**39,048**	**180,573**	**182,784**
LIABILITIES						
Noncurrent liabilities	98,287	81,475	27,286	25,642	125,573	107,117
Other liabilities	41,300	37,204	3,883	3,494	45,183	40,698
Total liabilities	**139,587**	**118,679**	**31,169**	**29,136**	**170,756**	**147,815**
NET ASSETS						
Investment in capital assets net of related debt	83,285	84,255	(131)	50	83,154	84,305
Restricted	8,392	10,149	3,855	6,853	12,247	17,002
Unrestricted	(86,302)	(69,347)	718	3,009	(85,584)	(66,338)
Total net assets	**$ 5,375**	**$ 25,057**	**$ 4,442**	**$ 9,912**	**$ 9,817**	**$ 34,969**

* Not restated

Changes in Net Assets

The expenses of the primary government totaled $221.7 billion for the year ended June 30, 2009. Of this amount, $103.3 billion (46.6%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $118.4 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $95.5 billion were less than the unfunded expenses. As a result, the total net assets decreased by $22.9 billion, or 70.0%.

Of the total decrease, net assets for governmental activities decreased by $17.9 billion, while those for business-type activities decreased by $5.0 billion. The decrease in governmental activities net assets is primarily due to a dramatic decline in general revenue—primarily revenue from personal income and sales and use taxes. The sudden economic downturn that California and the nation experienced during the last two years had a dramatic impact on personal income and taxable sales—the revenue base for these taxes. The decrease in business-type activities net assets is mainly due to unemployment benefit payments exceeding employers' contributions, federal loans, and other revenue for unemployment programs.

Table 2 presents condensed financial information derived from the Statement of Activities for the primary government.

Table 2

Changes in Net Assets – Primary Government
Year ended June 30, 2008 and 2009
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
REVENUES						
Program revenues:						
Charges for services	$ 19,989	$ 20,296	$ 24,288	$ 19,828	$ 44,277	$ 40,124
Operating grants and contributions	57,829	45,850	—	—	57,829	45,850
Capital grants and contributions	1,143	1,207	72	189	1,215	1,396
General revenues:						
Taxes	95,023	109,205	—	—	95,023	109,205
Investment and interest	176	639	—	—	176	639
Miscellaneous	316	282	—	—	316	282
Total revenues	**174,476**	**177,479**	**24,360**	**20,017**	**198,836**	**197,496**
EXPENSES						
Program expenses:						
General government	13,896	13,187	—	—	13,896	13,187
Education	65,644	65,130	—	—	65,644	65,130
Health and human services	79,077	74,310	—	—	79,077	74,310
Resources	5,626	6,333	—	—	5,626	6,333
State and consumer services	1,519	1,129	—	—	1,519	1,129
Business and transportation	11,980	13,068	—	—	11,980	13,068
Correctional programs	10,835	10,504	—	—	10,835	10,504
Interest on long-term debt	3,801	4,185	—	—	3,801	4,185
Electric Power	—	—	4,560	5,362	4,560	5,362
Water Resources	—	—	915	1,009	915	1,009
Public Building Construction	—	—	420	372	420	372
State Lottery	—	—	3,069	3,173	3,069	3,173
Unemployment Programs	—	—	19,609	10,623	19,609	10,623
Nonmajor enterprise	—	—	793	984	793	984
Total expenses	**192,378**	**187,846**	**29,366**	**21,523**	**221,744**	**209,369**
Excess (deficiency) before transfers	**(17,902)**	**(10,367)**	**(5,006)**	**(1,506)**	**(22,908)**	**(11,873)**
Transfers	21	55	(21)	(55)	—	—
Change in net assets	(17,881)	(10,312)	(5,027)	(1,561)	(22,908)	(11,873)
Net assets, beginning of year (restated)	**23,256**	**35,369**	**9,469**	**11,473**	**32,725**	**46,842**
Net assets, end of year	**$ 5,375**	**$ 25,057**	**$ 4,442**	**$ 9,912**	**$ 9,817**	**$ 34,969**

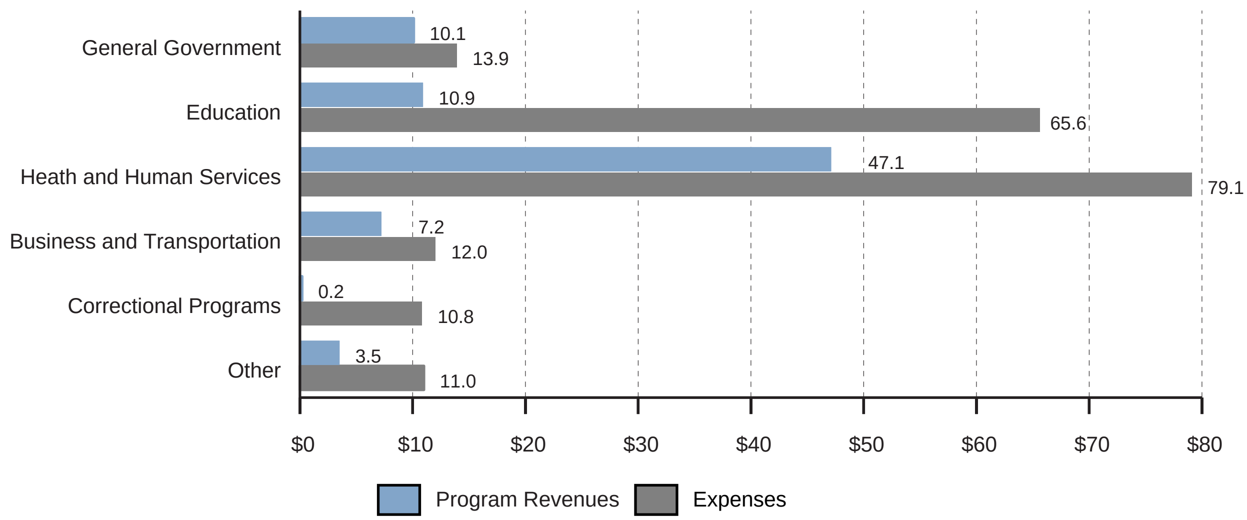
Governmental Activities

Governmental activities expenses totaled $192.4 billion. Program revenues, including $59.0 billion received in federal grants, funded $79.0 billion (41.1%) of expenses, leaving $113.4 billion to be funded with general revenues (mainly taxes). However, general revenues and transfers for governmental activities totaled only $95.5 billion, so governmental activities' total net assets decreased by $17.9 billion, or 78.7%, during the year ended June 30, 2009.

Chart 1 presents a comparison of governmental activities expenses by program, with related revenues.

Chart 1

Expenses and Program Revenues – Governmental Activities
Year Ended June 30, 2009
(amounts in billions)



For the year ended June 30, 2009, total state tax revenues collected for governmental activities decreased by 13.0% from the prior year. Revenue from all tax sources decreased, but the largest drop was in personal income taxes ($9.6 billion, or 17.4%) and sales and use taxes ($3.6 billion, or 10.4%). Personal income tax revenue declined primarily because taxpayers had less income from real estate-related profits and financial market capital gains, and because more Californians were unemployed during the 2008-09 fiscal year. The decrease in sales and use tax revenue was the result of the continued weakness in consumer spending.

Overall expenses for governmental activities increased by $4.5 billion (2.4%) over the prior year. The largest growth in expenses was a $4.8 billion increase in health and human services spending that was mainly attributable to increased services provided by the Medical Assistance (Medi-Cal) program and other public health programs. Most health and human services programs are funded through federal grants, which include economic stimulus funds received from the federal American Recovery and Reinvestment Act (ARRA) of 2009. The spending increase to this program type was somewhat offset by decreased spending in other program areas, including resources and business and transportation.

Charts 2 and 3 present the percentage of total expenses for each governmental activities program and the percentage of total revenues by source.

Chart 2

Expenses by Program
Year ended June 30, 2009
(as a percent)

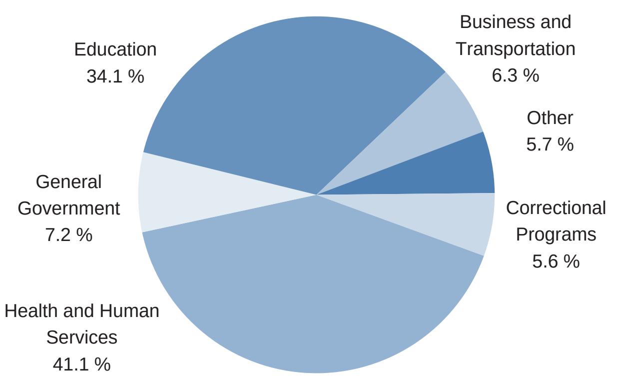
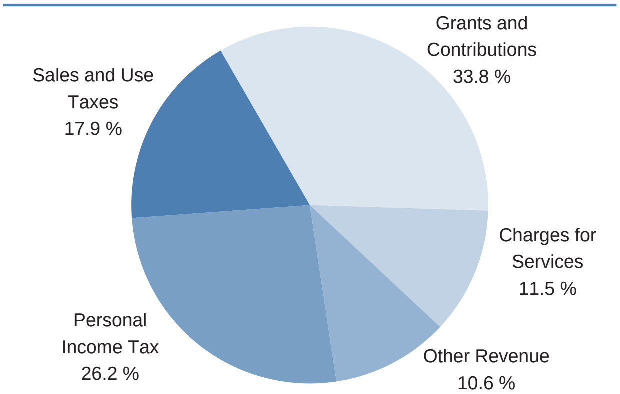


Chart 3

Revenues by Source
Year ended June 30, 2009
(as a percent)



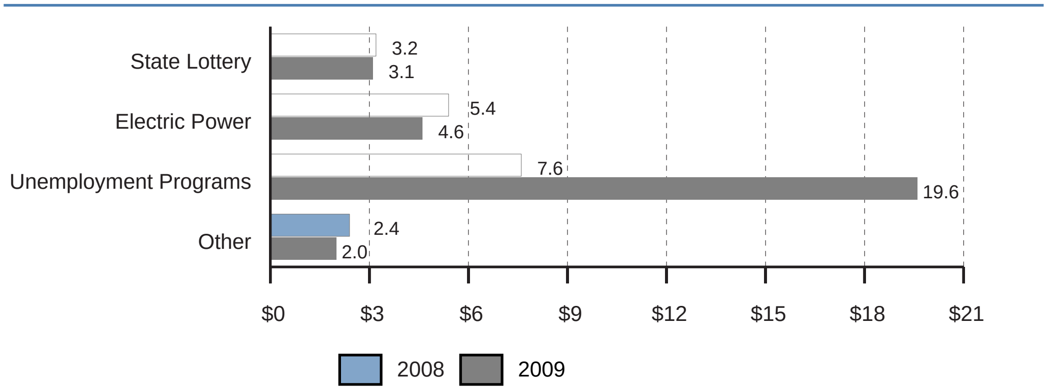
Business-type Activities

Business-type activities expenses and transfers totaled $29.4 billion. Program revenues of $24.3 billion, primarily generated from charges for services, were not sufficient to cover these expenses. Consequently, business-type activities' total net assets decreased by $5.0 billion, or 53.1%, during the year ended June 30, 2009. Most of the decrease was due to a $5.3 billion decrease in the unemployment programs' net assets, discussed in more detail in the Fund Financial Analysis section under Proprietary Funds.

Chart 4 presents a two-year comparison of the expenses of the State's business-type activities.

Chart 4

Expenses – Business-type Activities – Two-Year Comparison
Years Ended June 30, 2008 and 2009
(amounts in billions)



Fund Financial Analysis

The national recession and the State's weakening economy had the greatest impact on governmental funds, which rely heavily on taxes to support the majority of their services and programs. All categories of governmental fund tax revenue decreased during the year for total decreased revenue of $14.1 billion from the prior year. Although, for the first time in several years, the expenditures of governmental funds decreased from the prior year, tax revenues declined more. Most of the proprietary funds incurred net asset reductions as their expenses exceeded revenues for the year ended June 30, 2009. The Unemployment Programs Fund incurred the largest decline in its net assets due to increased benefit payments caused by California's high unemployment rate.

Governmental Funds

The governmental funds' Balance Sheet reported $63.6 billion in assets, $55.1 billion in liabilities, and $8.5 billion in fund balance as of June 30, 2009. Total assets of governmental funds increased by 22.3% and total liabilities increased by 40.0%, while total fund balance decreased by 32.8% from the prior fiscal year. These large changes are interrelated and were caused by the severe cash shortage that the General Fund experienced during the 2008-09 fiscal year. The General Fund had depleted its cash reserves by June 30, 2008, and relied on internal borrowing to meet its payment obligations. During the 2008-09 fiscal year, enacted legislation increased the General Fund's borrowing capacity, and by June 30, 2009, it had borrowed a total of $11.9 billion from many of the State's other funds. As a result, the governmental funds' total short- and long-term interfund receivables increased by $9.8 billion, primarily in funds other than the General Fund. In contrast, the cash and pooled investments of governmental funds decreased by $1.9 billion, while total short- and long-term interfund payables increased by $14.9 billion, primarily in the General Fund.

In addition to amounts borrowed from other governmental funds, the General Fund borrowed from internal service funds, enterprise funds, and fiduciary funds. The outstanding loans that the General Fund owes to these other fund types comprise much of the $4.2 billion decease in fund balance of the governmental funds. Within the total fund balance, $29.7 billion has been set aside in reserves. The reserved amounts are not available for new spending because they have been committed for outstanding contracts and purchase orders ($8.2 billion), noncurrent interfund receivables and loans receivable ($12.7 billion), continuing appropriations ($8.4 billion), and debt service ($339 million). The unreserved balance of the governmental funds is a negative $21.2 billion.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds shows $174.4 billion in revenues, $196.0 billion in expenditures, and a net $17.4 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2009, was $8.5 billion, a $4.2 billion decrease over the prior year's restated ending fund balance of $12.7 billion. The decrease in the fund balance was primarily caused by decreases in all categories of state tax revenue during the 2008-09 fiscal year. Personal income taxes, which account for 47.9% of tax revenues and 26.2% of total governmental fund revenues, decreased by $9.7 billion from the prior fiscal year. Sales and use taxes, which account for 33.1% of tax revenues and 17.9% of total governmental fund revenues, decreased by $3.3 billion from the prior fiscal year. The credit crisis and the major decline in stock prices during 2008 eroded the State's tax revenue base. Given the decline in California's real estate markets and the rapid decline in national stock prices, income from capital gains fell significantly. Lower asset prices of housing and stocks, along with increased unemployment prompted consumers to scale back purchases of big-ticket items. In turn, fewer sales and less profit reduced the revenue generated from sales and use taxes and corporation taxes.

The State's major governmental funds are the General Fund, the Federal Fund, and the Transportation Fund. The General Fund ended the fiscal year with a fund deficit of $16.1 billion. The Federal Fund and the Transportation Fund ended the fiscal year with fund balances of $84 million and $6.7 billion, respectively. The nonmajor governmental funds ended the year with a total fund balance of $17.9 billion.

General Fund: As shown on the Balance Sheet, the General Fund (the State's main operating fund) ended the fiscal year with assets of $14.7 billion, liabilities of $30.7 billion, and fund balance reserves of $2.3 billion, leaving the General Fund with an unreserved fund deficit of $18.3 billion. Total assets of the General Fund changed little during the year, because the $1.2 billion decrease in cash and pooled investments was offset by a $1.2 billion increase in due from other funds, primarily from the Federal Fund. During the 2008-09 fiscal year, the General Fund experienced severe cash shortages, resulting in a 30-day delay of payments to individuals and businesses, the deferral of certain payments to the next fiscal year, and legislative changes to increase the General Fund's internal borrowing capacity. The liabilities of the General Fund increased by $12.4 billion (67.3%), mainly in amounts due to other funds ($3.2 billion) and interfund payables ($8.8 billion) resulting from the General Fund's increased cash-flow borrowing from other state funds to meet its payment obligations.

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds, the General Fund had $84.2 billion in revenues, $92.6 billion in expenditures, and a net $3.5 billion disbursement from other financing sources (uses) for the year ended June 30, 2009. Approximately 94% of General Fund revenue ($79.2 billion) is derived from the State's big three taxes—personal income taxes ($44.7 billion), sales and use taxes ($23.8 billion), and corporation taxes ($10.7 billion).

During the 2008-09 fiscal year, total General Fund tax revenue decreased by $12.9 billion, or 13.7%; the decrease in revenue from the State's big three taxes account for almost the entire decline. Revenue from personal income taxes decreased by $9.5 billion (17.6%), primarily due to a decline in capital gains and other variable income, such as bonuses and stock options, and also by the increase in California's unemployment. Revenue from sales and use taxes decreased by $2.8 billion (10.6%), primarily due to a decline in consumer spending on big-ticket items such as vehicles, building supplies, and home furnishings. Revenue from corporation taxes decreased by $463 million; the decrease would have been much higher if not for revenue-enhancing measures adopted as part of the 2008-09 Budget Act.

General Fund expenditures decreased by $6.4 billion, to $92.6 billion. The programs with the largest decreases were education, which decreased by $5.1 billion, to $46.0 billion, and health and human services, which decreased by $1.2 billion, to $28.0 billion. The General Fund's ending fund balance (including reserves) for the year ended June 30, 2009, was a negative $16.1 billion, a decrease of $11.9 billion over the prior year's ending fund balance of negative $4.2 billion. Continued deterioration of the State's revenues has caused a decline in the Proposition 98 funding requirement (known as the minimum education funding guarantee), which allowed the State to reduce General Fund spending on K-14 education in the 2008-09 fiscal year. Additional reductions were also made in the funding provided to California's higher education facilities. The decreased expenditures for health and human services were mainly the result of economic relief provide by ARRA that reduced the General Fund's share of Medical Assistance program costs and increased the required federal share.

Federal Fund: This fund reports federal grant revenues and the related expenditures to support the grant programs. The largest of these program areas is health and human services, which accounted for $41.3 billion (71.9%) of the total $57.4 billion in fund expenditures. The Medical Assistance program and the Temporary Assistance for Needy Families program are included in this program area. Education programs also constituted a large part of the fund's expenditures—$10.5 billion (18.3%)—most of which were apportionments made to local educational agencies (school districts, county offices of education, community colleges). The Federal Fund's revenues increased by approximately the same amount as did the combined expenditures and transfers ($11.9 billion), with revenues increasing slightly more than expenditures and transfers, resulting in a $41 million increase in fund balance from the prior year. The increase in Federal Fund revenues and expenditures was primarily the result of economic stimulus funding from ARRA that was mainly used for health and human services, correctional programs, and education expenditures.

Transportation Fund: This fund accounts for fuel taxes, bond proceeds, and other revenues used primarily for highway and passenger rail construction. The Transportation Fund's revenues increased by 1.7% and expenditures decreased by 5.1%. However, the main reason for the $1.2 billion increase in fund balance over the prior year's restated fund balance was a $1.5 billion increase in other financing sources from general obligation bonds issued during the year.

Proprietary Funds

Enterprise Funds: In general, the slowing economy did not have as significant an effect on enterprise funds as it did on governmental funds. Most major enterprise funds' activity remained stable, as revenues approximated expenses. However, further increases in California's unemployment rate had a dramatic effect on the already stressed Unemployment Programs Fund, whose net assets decreased during the year by $5.3 billion to a negative $1.5 billion.

As shown on the Statement of Net Assets of the proprietary funds, total assets of the enterprise funds were $36.0 billion as of June 30, 2009. Of this amount, current assets totaled $6.2 billion and noncurrent assets totaled $29.8 billion. The largest changes in asset account balances were a $2.5 billion decrease in cash and pooled investments and a $2.5 billion decrease in the amount on deposit with U.S Treasury in the Unemployment Programs Fund. The total liabilities of the enterprise funds were $31.6 billion. The largest liability of the enterprise funds is for bonds payable—$21.9 billion of revenue bonds payable and $1.6 billion of general obligation bonds payable. Although there was activity during the year—new bonds issued, redemptions, and defeasances—the change in the ending balance of these accounts was small. During the 2008-09 fiscal year, the State obtained loans from the U.S Department of Labor to cover deficits in the Unemployment Programs Fund in the first and second quarter of 2009. The balance due on these loans as of June 30, 2009 was $1.9 billion.

Total net assets of the enterprise funds were $4.4 billion as of June 30, 2009. Total net assets consisted of three segments: expendable restricted net assets of $3.9 billion, investment in capital assets (net of related debt) of negative $131 million, and unrestricted net assets of $718 million. The Unemployment Programs Fund had a net deficit of $1.5 billion, a $5.3 billion (139.1%) decrease from the prior year. The net assets of all other enterprise funds experienced little change during the year.

The large decreases in cash and pooled investments, the amount on deposit with the U.S Treasury, and the net assets of the Unemployment Programs Fund were the result of the increased demand for unemployment benefits. Several years ago, a legislative change nearly doubled the maximum unemployment weekly benefit amount, but there was no corresponding increase to the tax rate schedule or the taxable wage base that would have generated additional revenue to cover the increased benefit. As unemployment began to dramatically increase during the 2007-08 fiscal year, the fund's unemployment insurance receipts for the year fell short of the amount needed to pay the current-year unemployment benefits. During the 2008-09 fiscal year, the condition of the Unemployment Programs Fund deteriorated further, as California's unemployment rate rose to 11.6% by June 2009. In addition to the federal loans received in the 2008-09 fiscal year, the State anticipates requesting other loans to cover projected deficits in 2010. In its October 2009 forecast, the Employment Development Department projects that the fund will end 2010 with a deficit of $18.4 billion. To restore solvency, the State must increase employer taxes, reduce benefits, or do some combination of the two.

Without corrective action, the Unemployment Programs Fund will remain insolvent for the foreseeable future and the interest payments on the federal loans, which are currently being waived until after December 2010 under ARRA, will likely become the General Fund's responsibility beginning in the 2011-12 fiscal year.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets of the proprietary funds, the enterprise funds ended the year with operating revenues of $23.1 billion, operating expenses of $27.1 billion, and net disbursements from other transactions of $1.0 billion. The largest sources of operating revenue were unemployment and disability insurance receipts of $14.2 billion in the Unemployment Programs Fund and power sales of $3.6 billion collected by the Electric Power Fund. The largest operating expenses were distributions to beneficiaries of $19.4 billion by the Unemployment Programs Fund and power purchases (net of recoverable costs) of $3.6 billion by the Electric Power Fund. The ending net assets of the enterprise funds at June 30, 2009, were $4.4 billion—$5.0 billion less than the prior year's restated ending net assets of $9.4 billion.

Internal Service Funds: Total net assets of the internal service funds were $373 million as of June 30, 2009. These net assets consist of two segments: investment in capital assets (net of related debt) of $166 million and unrestricted net assets of $207 million.

Fiduciary Funds

The State of California has four types of fiduciary funds: private purpose trust funds, pension and other employee benefit trust funds, investment trust funds, and agency funds. The private purpose trust funds ended the fiscal year with net assets of $3.0 billion. The pension and other employee benefit trust funds ended the fiscal year with net assets of $306.1 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with net assets of $25.2 billion. Agency funds act as clearing accounts and thus do not have net assets.

For the year ended June 30, 2009, the fiduciary funds' combined net assets were $334.3 billion, a $102.8 billion decrease from prior year net assets. The decrease in net assets for these funds was mainly attributable to a decline in investment income that actually resulted in a net loss for the year and a decrease in the fair value of the funds' investments of $113.2 billion (23.9%).

The Economy for the Year Ending June 30, 2009

As the 2008-09 fiscal year began, the economy was well into the recession, which began in December of 2007. There was not a single quarter of positive growth in the gross domestic product during the 2008-09 fiscal year, with the annualized reduction ranging from -0.7% to -6.4% on a quarterly basis. The federal government continued to play an active role in the housing markets with programs like the First Time Homebuyer Tax Credit. In addition, the Federal Reserve continued to hold its target interest rate at between 0% and 0.25% through the end of the 2008-09 fiscal year.

Labor markets were hit hard during the 2008-09 fiscal year as well. Nationwide, the unemployment rate rose to 9.5% by June 2009—its highest rate since August 1983. In June 2009, total nonfarm employment was 132 million jobs, down from its peak of 138 million in December 2007. This represents a total decline of 6 million, or 4.7% of all nonfarm jobs in the country, and it brings the nation back to the level of employment in 2004.

California's labor markets also experienced difficulty during the 2008-09 fiscal year. By June 2009, the State's unemployment rate had climbed to 11.6%—its highest rate in more than 30 years. In terms of employment, California felt the effects of the current recession more than did the U.S. overall during the 2008-09 fiscal year.

By the end of June 2009, the State had lost more than 903,000 jobs since December 2007. This number represents a 6% decline in employment and demonstrates the severity of the recession in California relative to the nation overall, which lost only 4.7% of its jobs. Unlike in the 2007-08 fiscal year, when job losses were largely in real estate-related industries, the 2008-09 fiscal year saw much broader job losses across most industries.

Additionally, personal income and taxable sales, which represent the State's two largest individual sources of revenue for the General Fund, fell dramatically in the 2008-09 fiscal year. By the end of June 2009, personal income was down 3.3% from its peak in September 2008 and taxable sales had fallen 23.6% from its quarterly peak in December 2006. These declines put a strain on California's financial position and on its already depleted cash reserves.

General Fund Budget Highlights

The original General Fund budget of $102.1 billion was decreased by $5.8 billion. This decrease is mainly composed of reductions to various education programs due to fiscal emergency measures. During the 2008-09 fiscal year, General Fund actual budgetary basis expenditures were $93.1 billion, $3.2 billion less than the final budgeted amounts.

Table 3

General Fund Original and Final Budgets
Year ended June 30, 2009
(amounts in millions)

	Original	Final	Increase/ (Decrease)
Budgeted amounts			
State and consumer services	$ 577	$ 570	$ (7)
Business and transportation	1,030	1,030	—
Resources	1,095	1,614	519
Health and human services	31,505	30,870	(635)
Correctional programs	10,225	9,731	(494)
Education	48,067	43,048	(5,019)
General government:			
Tax relief	769	680	(89)
Debt service	4,316	4,391	75
Other general government	4,500	4,317	(183)
Total	**$ 102,084**	**$ 96,251**	**$ (5,833)**

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2009, amounted to $103.5 billion (net of accumulated depreciation). This investment in capital assets includes land, state highway infrastructure, collections, buildings and other depreciable property, and construction in progress. Depreciable property includes buildings, improvements other than buildings, equipment, personal property, intangible assets, certain infrastructure assets, certain books, and other capitalized and depreciable property. Infrastructure assets are items that are normally immovable and can be preserved for a greater number of years than can most capital assets. Infrastructure assets include roads and bridges.

Table 4 presents a summary of the primary government's capital assets for governmental and business-type activities.

Table 4

Capital Assets
Year ended June 30, 2009
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Land	$ 16,355	$ 49	$ 16,404
State highway infrastructure	59,188	—	59,188
Collections – nondepreciable	23	—	23
Buildings and other depreciable property	23,031	8,092	31,123
Less: accumulated depreciation	(9,410)	(3,264)	(12,674)
Construction in progress	7,406	1,982	9,388
Total	**$ 96,593**	**$ 6,859**	**$ 103,452**

The budget authorized $4.7 billion for the State's capital outlay program in the 2008-09 fiscal year, not including funding for state highway infrastructure and K-12 schools. State highway infrastructure assets are discussed in more detail in the Required Supplementary Information that follows the notes to the financial statements. Of the $4.7 billion authorized, $213 million was from the General Fund; $2.0 billion was from lease-revenue bonds; $2.0 billion was from proceeds of various general obligation bonds; and $480 million was from reimbursements, federal funds, and special funds. The major new capital projects authorized include:

- $1.7 billion for numerous construction projects within the University of California, the California State University, and the California Community Colleges;

- $199 million in lease-revenue bonds for the Department of Corrections and Rehabilitation for the completion of construction of an inmate complex at San Quentin State Prison, construction of a wastewater treatment plant, construction of dormitory housing, construction of a kitchen facility, and renovation to other facilities;

- $158 million in lease-revenue bonds for the Department of Forestry and Fire Protection for various new and continuing projects, including: replacement of two unit headquarters, three forest fire stations, and a helitack base, and the relocation of an auto shop;

- $127 million for the Department of Water Resources for levee evaluations and repairs in the Central Valley. This funding will be used to identify and correct the most serious levee deficiencies to protect life and property from flooding in the Central Valley;

- $119 million for 11 continuing projects to replace structurally deficient court facilities; and

- $58 million for the Department of Corrections and Rehabilitation for new and continuing projects mainly to address infrastructure deficiencies and security concerns.

Note 7, Capital Assets, includes additional information on the State's capital assets.

Modified Approach for Infrastructure Assets

The State uses the modified approach to report the cost of its infrastructure assets (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for roads and bridges but capitalizes all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs are expensed and not capitalized. Under the modified approach, the State maintains an asset management system to demonstrate that it is preserving the infrastructure at or above established condition levels. The State is responsible for maintaining 49,477 lane miles and 12,266 bridges.

During the 2008-09 fiscal year, the actual amount spent on preservation was 26.6% of the estimated budgeted amount needed to maintain the infrastructure assets at the established-condition levels. Although the amount spent fell short of the budgeted amount, the assessed conditions of the State's bridges and roadways are better than the established condition baselines.

The Required Supplementary Information includes additional information on how the State uses the modified approach for infrastructure assets; it also presents the established condition standards, condition assessments, and preservation costs.

Debt Administration

At June 30, 2009, the primary government had total bonded debt outstanding of $101.2 billion. Of this amount, $70.4 billion (69.6%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the $70.4 billion of general obligation bonds is $8.6 billion of Economic Recovery bonds that are secured by a pledge of revenues derived from dedicated sales and use taxes. The current portion of general obligation bonds outstanding is $3.0 billion and the long-term portion is $67.4 billion. The remaining $30.8 billion (30.4%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is $1.2 billion and the long-term portion is $29.6 billion. Table 5 presents a summary of the primary government's long-term obligations for governmental and business-type activities.

Table 5

Long-term Obligations
Year ended June 30, 2009
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Government-wide noncurrent liabilities			
General obligation bonds	$ 65,808	$ 1,584	$ 67,392
Revenue bonds	7,614	21,953	29,567
Certificates of participation and commercial paper	1,401	51	1,452
Capital lease obligations	4,175	—	4,175
Net other postemployment benefits obligation	4,620	101	4,721
Proposition 98 funding guarantee	3,419	—	3,419
Mandated costs	3,034	—	3,034
Loans payable	199	1,994	2,193
Other noncurrent liabilities	8,017	1,603	9,620
Total noncurrent liabilities	**98,287**	**27,286**	**125,573**
Current portion of long-term obligations	3,883	1,736	5,619
Total long-term obligations	**$ 102,170**	**$ 29,022**	**$ 131,192**

The primary government's total long-term obligations increased during the year ended June 30, 2009. Governmental activities general obligation bonds payable had the largest increase ($12.2 billion) as $15.4 billion in new bonds were issued during the fiscal year. The largest share of the proceeds will go toward public education facilities and transportation projects. The net other postemployment benefits obligation increased because the State does not fully fund the annual cost of these benefits. As a result of implementing GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, pollution remediation obligations of $605 million were added to the long-term obligations for governmental activities.

Note 10, Long-term Obligations, and Notes 11 through 16 include additional information on the State's long-term obligations.

In February 2009, Standard & Poor's reduced the State's general obligation bond credit rating from "A+" to "A" due to the State's inability to reach an agreement on the mid-year budget revision and its rapidly eroding cash position. In March 2009, Moody's Investors Service reduced its rating from "A1" to "A2" and Fitch reduced its rating from "A+" to "A". Both cited the ongoing weakening of the State's economy, including its reduced revenues, cash flow/liquidity stress, and continued budget problems. In June 2009, Fitch further reduced its rating to "A-" citing the magnitude of the State's financial and institutional challenges and persistent economic and revenue weakening.

Recent Economic Condition and Future Budgets

Recent Economic Condition

The economic outlook for the nation and California began to improve in the early part of the 2009-10 fiscal year. The real estate markets, whose decline accelerated the economic downturn and intensified underlying imbalances in the economy, began to show signs of life. Median home prices, which had dropped by 54.3% from their peak during early 2007, began to level off. Indeed, home prices in California have increased during the last quarter of 2009. In addition, California has seen a 17% increase in home sales for 2009 and foreclosure activity has declined somewhat. However, the foreclosure rate remains high by historical standards. New construction activity is expected as a result of the increase in home sales. In fact, newly issued residential building permits have averaged more than 3,000 units per month for the first half of the 2009-10 fiscal year. These trends should have positive implications for a housing market that has been in trouble since 2006, and for construction employment, which followed the housing market's decline.

As of December 2009, the unemployment rates in the U.S. and California were 10.0% and 12.4%, respectively. However, fewer jobs were lost in the last half of 2009 than were lost during the first half of the year. In December 2009, the number of unemployed Americans fell by 73,000 to 15 million. This was the nation's second unemployment decrease in a row. In December 2009, the number of unemployed Californians fell by 19,000 to 2 million. This was the State's third unemployment decrease in the previous four months. This slight decrease in unemployment is a positive indication that California's labor markets and economy are moving toward a recovery.

Although there are indications that the economy is improving, there is some uncertainty whether the recent improvement in the housing and labor markets is the start of a trend. The federal government played an active role in attempting to stimulate the markets over the past year and a half, with programs such as the First-Time Homebuyer Tax Credit, the Cash for Clunkers program, Making Work Pay tax credits, and a low federal funds rate. It is uncertain whether federal policy makers will continue these types of initiatives. Some economists forecast that the recession is at or nearing bottom, but the recovery will be slow due to the widespread damage that the State's economy has sustained.

California's 2009-10 Budget

California's 2009-10 Budget Act was enacted on February 20, 2009, more than four months before the fiscal year began. The spending plan enacted $36 billion in solutions for an estimated $42 billion General Fund budget gap for the combined 2008-09 and 2009-10 fiscal years. On May 14, 2009, the Governor released the 2009-10 May Revision, which identified, through the 2009-10 fiscal year, a further budget shortfall of approximately $24 billion, including an estimated $6 billion that would have been provided by five budget-related measures that were rejected by the voters on May 19, 2009.

An amended 2009-10 Budget Act was enacted on July 28, 2009; it included another $24 billion in solutions to address the additional shortfall identified in the 2009-10 May Revision. The amended Budget Act was $119.2 billion—$84.6 billion from the General Fund, $25.1 billion from special funds, and $9.5 billion from bond funds. The General Fund's available resources were projected to be $86.2 billion, and the adopted budget included a reserve for economic uncertainties of $500 million. The amended budget includes spending reductions in virtually every state program, but primarily in K-12 and higher education, employee compensation, and health and human services. In addition, the budget amendments included $1.9 billion in property tax monies borrowed from local governments pursuant to Proposition 1A (2004). The borrowed sums will be used to fund K-12 schools, courts, prisons, and certain bond expenses that would otherwise be funded by the General Fund. The enabling legislation requires the monies to be repaid with interest by June 30, 2013, and authorizes a local-government-created joint powers authority to issue bonds against the State's repayment obligation.

General Fund revenues come predominately from taxes, with personal income taxes expected to provide 55% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) were projected to supply approximately 95% of the General Fund's resources in the 2009-10 fiscal year. The amended 2009-10 Budget Act, and additional legislation, included several changes to these major revenue sources, including temporary increases in sales tax and vehicle license fees, a personal income tax surcharge, accelerated estimated tax payments, and a 10% increase in wage withholding rates.

The proposed 2010-11 Governor's Budget provides revised revenue and expenditure estimates for the 2009-10 fiscal year. If no corrective budget actions are taken by the Governor and the Legislature, the new estimated budget shortfall by the end of the 2009-10 fiscal year is $6.6 billion. The continued deterioration of revenues and failure to achieve all the budget solutions and savings expected from the previously enacted budgets were cited as the major reasons for the revised budget shortfall estimate. The Governor's proposed solutions to address this shortfall are discussed further in the next section.

California's 2010-11 Budget

The Governor released his proposed 2010-11 budget on January 8, 2010. This proposed budget projects a $19.9 billion gap between estimated revenues and state expenditures over the next 18 months. The $19.9 billion figure is comprised of a $6.6 billion shortfall in the 2009-10 fiscal year, a $12.3 billion shortfall in the 2010-11 fiscal year, and a modest $1 billion reserve. The Governor's Budget proposes $8.5 billion in spending reductions, $6.9 billion in additional federal funds, and $4.5 billion in alternative funding and fund shifts—some that would require voter approval. The Governor declared a fiscal emergency and called the Legislature into special session on January 8, 2010. The proposed budget anticipates action on $8.9 billion in solutions during the special session, as waiting until the enactment of the 2010-11 budget would result in the loss of $2.4 billion of expected budget solutions, causing even deeper cuts in the 2010-11 fiscal year.

The 2010-11 Governor's Budget projects (with all budget solutions enacted) that 2009-10 fiscal year General Fund revenues and transfers will be about $88.1 billion and expenditures will be about $86.1 billion. The proposed budget anticipates, for the 2010-11 fiscal year, General Fund revenues and transfers of about $89.3 billion and expenditures of about $82.9 billion, resulting in a $1 billion reserve. Proposed 2010-11 General Fund revenues and transfers are 1.4% greater than the revised 2009-10 estimates of $88.1 billion, while 2010-11 General Fund expenditures are 3.7% less than the revised 2009-10 estimates of $86.1 billion. Proposed expenditure solutions for the 2010-11 fiscal year include reducing employee compensation and the State's retirement contributions by $1.6 billion, reducing Proposition 98 spending by $1.5 billion, and implementing various Medi-Cal changes for a savings of $1.1 billion.

The Governor's 2010-11 proposed budget relies heavily on federal funding and seeks flexibility to more effectively manage program costs currently restricted by federal maintenance-of-effort requirements, court decisions, and underfunded federal mandates. These federal solutions include $2.1 billion from extending a portion of federal economic stimulus funding for various health and human services programs and increasing federal reimbursements for Medi-Cal by $1.8 billion, for Medicare and prescription drug costs by $1.0 billion, and for special education by $1.0 billion. Proposed solutions, in the event that federal funding and program flexibility falls short of the $6.9 billion anticipated in the budget, include $1.2 billion from extending for one year the suspension of net operating losses that businesses use to reduce taxable income, $1.0 billion from eliminating the California Work Opportunity and Responsibility to Kids program, and $847 million from shifting Proposition 63 mental health funds to pay General Fund expenditures for mental health services.

According to the Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, though the State may obtain additional federal funding and may be granted some flexibility in managing federal programs, it is unlikely that the State will secure all of the federal assistance the Governor anticipates. Therefore, the Legislature must make some of the difficult decisions suggested by the Governor in anticipation that federal relief will be less than expected. The LAO maintains that the Legislature must show steady progress toward a new, sustainable budget framework that will restore the State's fiscal well-being and improve public trust in state government.

Requests for Information

The State Controller's Office designed this financial report to provide interested parties with a general overview of the State of California's finances. Address questions concerning the information provided in this report or requests for additional information to the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250. This report is also available on the Controller's Office Web site at www.sco.ca.gov.

Basic Financial Statements

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Government-wide
Financial Statements

Statement of Net Assets

June 30, 2009
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 16,545,964	$ 1,928,798	$ 18,474,762	$ 4,722,655
Amount on deposit with U.S. Treasury	—	118,013	118,013	—
Investments	1,589,789	441,831	2,031,620	6,699,310
Restricted assets:				
Cash and pooled investments	—	1,640,248	1,640,248	72,832
Investments	—	—	––	72,438
Due from other governments	—	58,788	58,788	—
Net investment in direct financing leases	—	378,512	378,512	—
Receivables (net)	11,779,200	463,130	12,242,330	3,788,017
Internal balances	(1,312,632)	1,312,632	––	—
Due from primary government	—	—	––	72,176
Due from other governments	13,962,747	258,240	14,220,987	444,613
Due from component units	516,295	—	516,295	—
Prepaid items	121,044	8,209	129,253	3,694
Inventories	85,119	22,540	107,659	166,456
Recoverable power costs (net)	—	468,000	468,000	—
Other current assets	97,271	72,518	169,789	309,586
Total current assets	43,384,797	7,171,459	50,556,256	16,351,777
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	1,268,922	1,268,922	99,086
Investments	—	411,676	411,676	7,513
Loans receivable	—	395,029	395,029	—
Investments	—	1,679,763	1,679,763	36,801,587
Net investment in direct financing leases	—	6,761,300	6,761,300	—
Receivables (net)	1,812,000	47,071	1,859,071	961,185
Loans receivable	3,102,463	4,012,738	7,115,201	8,346,720
Recoverable power costs (net)	—	5,691,000	5,691,000	—
Deferred charges	68,773	1,286,690	1,355,463	40,083
Capital assets:				
Land	16,354,789	49,686	16,404,475	869,894
State highway infrastructure	59,188,379	—	59,188,379	—
Collections – nondepreciable	23,579	29	23,608	312,453
Buildings and other depreciable property	23,030,916	8,091,954	31,122,870	33,337,820
Less: accumulated depreciation	(9,410,107)	(3,264,054)	(12,674,161)	(14,437,496)
Construction in progress	7,405,749	1,981,655	9,387,404	2,933,575
Other noncurrent assets	—	26,070	26,070	445,221
Total noncurrent assets	101,576,541	28,439,529	130,016,070	69,717,641
Total assets	**$ 144,961,338**	**$ 35,610,988**	**$ 180,572,326**	**$ 86,069,418**

The notes to the financial statements are an integral part of this statement.

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 19,733,920	$ 559,373	$ 20,293,293	$ 2,403,631
Due to primary government	—	—	—	516,295
Due to component units	72,176	—	72,176	—
Due to other governments	8,471,045	174,011	8,645,056	2,110
Dividends payable	—	—	—	1,000
Deferred revenue	—	62,385	62,385	1,020,265
Tax overpayments	5,294,770	—	5,294,770	—
Deposits	272,422	4,987	277,409	525,087
Contracts and notes payable	2,728	—	2,728	21,847
Unclaimed property liability	737,724	—	737,724	—
Advance collections	1,028,044	21,934	1,049,978	94,724
Interest payable	1,028,731	207,338	1,236,069	165,965
Securities lending obligations	—	—	—	2,388,326
Benefits payable	—	1,038,148	1,038,148	1,759,203
Current portion of long-term obligations	3,882,979	1,735,708	5,618,687	1,627,221
Other current liabilities	775,603	78,734	854,337	2,142,247
Total current liabilities	41,300,142	3,882,618	45,182,760	12,667,921
Noncurrent liabilities:				
Benefits payable	—	5,490	5,490	16,380,731
Loans payable	199,437	1,944,070	2,143,507	29,873
Lottery prizes and annuities	—	1,089,742	1,089,742	—
Compensated absences payable	2,647,959	41,411	2,689,370	230,586
Certificates of participation, commercial paper, and other borrowings	1,400,797	51,307	1,452,104	87,428
Capital lease obligations	4,175,407	—	4,175,407	2,605,362
General obligation bonds payable	65,808,257	1,584,187	67,392,444	—
Revenue bonds payable	7,613,704	21,952,960	29,566,664	16,146,590
Net other postemployment benefits	4,619,748	100,502	4,720,250	2,660,299
Pollution remediation obligation	570,116	—	570,116	41,198
Other noncurrent liabilities	11,251,207	516,544	11,767,751	1,853,801
Total noncurrent liabilities	98,286,632	27,286,213	125,572,845	40,035,868
Total liabilities	**139,586,774**	**31,168,831**	**170,755,605**	**52,703,789**
NET ASSETS				
Investment in capital assets, net of related debt	83,285,184	(130,634)	83,154,550	11,813,381
Restricted:				
Nonexpendable – endowments	—	—	—	3,512,089
Expendable:				
Endowments and gifts	—	—	—	5,746,107
Business and transportation	2,728,378	43,045	2,771,423	1,746,662
Resources	2,223,758	1,412,129	3,635,887	—
Health and human services	25,220	120,912	146,132	—
Education	1,521,799	424,301	1,946,100	1,434,379
General government	1,892,659	665,698	2,558,357	1,055,993
Unemployment programs	—	1,188,966	1,188,966	—
Workers' compensation liability	—	—	—	4,969,906
Total expendable	8,391,814	3,855,051	12,246,865	14,953,047
Unrestricted	(86,302,434)	717,740	(85,584,694)	3,087,112
Total net assets	**5,374,564**	**4,442,157**	**9,816,721**	**33,365,629**
Total liabilities and net assets	**$ 144,961,338**	**$ 35,610,988**	**$ 180,572,326**	**$ 86,069,418**

The notes to the financial statements are an integral part of this statement.

Statement of Activities

Year Ended June 30, 2009
(amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 13,895,948	$ 4,781,126	$ 5,327,858	$ —
Education	65,643,486	3,483,072	7,437,293	—
Health and human services	79,077,015	4,256,069	42,803,312	—
Resources	5,626,359	2,578,738	211,426	—
State and consumer services	1,518,402	658,486	49,838	—
Business and transportation	11,980,315	4,210,461	1,865,327	1,142,691
Correctional programs	10,835,203	21,592	133,568	—
Interest on long-term debt	3,801,283	—	—	—
Total governmental activities	192,378,011	19,989,544	57,828,622	1,142,691
Business-type activities:				
Electric Power	4,560,000	4,560,000	—	—
Water Resources	914,837	914,837	—	—
Public Building Construction	420,465	366,151	—	—
State Lottery	3,069,365	3,051,320	—	—
Unemployment Programs	19,609,068	14,273,975	—	—
High Technology Education	15,590	15,975	—	—
State University Dormitory Building Maintenance and Equipment	486,349	811,454	—	—
State Water Pollution Control Revolving	12,261	59,923	—	71,882
Housing Loan	130,777	109,636	—	—
Other enterprise programs	147,441	124,952	—	—
Total business-type activities	29,366,153	24,288,223	—	71,882
Total primary government	**$ 221,744,164**	**$ 44,277,767**	**$ 57,828,622**	**$ 1,214,573**
Component units:				
University of California	$ 21,719,318	$ 10,865,007	$ 7,449,115	$ 154,998
State Compensation Insurance Fund	2,375,029	1,587,327	—	—
California Housing Finance Agency	796,189	532,137	521,265	—
Public Employees' Benefit Fund	2,178,999	1,908,855	—	—
Nonmajor component units	2,138,143	1,289,129	538,189	15,954
Total component units	**$ 29,207,678**	**$ 16,182,455**	**$ 8,508,569**	**$ 170,952**

General revenues:

- Personal income taxes
- Sales and use taxes
- Corporation taxes
- Insurance taxes
- Other taxes
- Investment and interest
- Escheat
- Other

Transfers

Total general revenues and transfers

Change in net assets

Net assets, July 1, 2008

Net assets, June 30, 2009

* Restated

The notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (3,786,964)		$ (3,786,964)	
(54,723,121)		(54,723,121)	
(32,017,634)		(32,017,634)	
(2,836,195)		(2,836,195)	
(810,078)		(810,078)	
(4,761,836)		(4,761,836)	
(10,680,043)		(10,680,043)	
(3,801,283)		(3,801,283)	
(113,417,154)		(113,417,154)	
	$ —	––	
	—	––	
	(54,314)	(54,314)	
	(18,045)	(18,045)	
	(5,335,093)	(5,335,093)	
	385	385	
	325,105	325,105	
	119,544	119,544	
	(21,141)	(21,141)	
	(22,489)	(22,489)	
	(5,006,048)	(5,006,048)	
(113,417,154)	**(5,006,048)**	**(118,423,202)**	
			$ (3,250,198)
			(787,702)
			257,213
			(270,144)
			(294,871)
			(4,345,702)
45,709,344	—	45,709,344	—
31,244,979	—	31,244,979	—
10,741,140	—	10,741,140	—
2,063,555	—	2,063,555	—
5,264,685	—	5,264,685	—
175,584	—	175,584	(831,084)
315,642	—	315,642	—
—	—	––	2,289,117
21,015	(21,015)	––	—
95,535,944	**(21,015)**	**95,514,929**	**1,458,033**
(17,881,210)	(5,027,063)	(22,908,273)	(2,887,669)
23,255,774 *	**9,469,220** *	**32,724,994**	**36,253,298** *
$ 5,374,564	**$ 4,442,157**	**$ 9,816,721**	**$ 33,365,629**

The notes to the financial statements are an integral part of this statement.

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Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2009
(amounts in thousands)

	General	Federal	Transportation	Nonmajor Governmental	Total
ASSETS					
Cash and pooled investments	$ 643,463	$ 355,075	$ 3,280,576	$ 11,581,499	**$ 15,860,613**
Investments	—	—	—	1,589,789	**1,589,789**
Receivables (net)	9,948,292	1,181	562,953	1,142,472	**11,654,898**
Due from other funds	2,600,701	39	1,687,366	2,964,110	**7,252,216**
Due from component units	516,295	—	—	—	**516,295**
Due from other governments	714,717	13,034,725	58,155	143,024	**13,950,621**
Interfund receivables	123,275	—	2,588,972	6,975,924	**9,688,171**
Loans receivable	109,673	85,026	—	2,838,469	**3,033,168**
Other assets	17	—	72,689	24,565	**97,271**
Total assets	**$ 14,656,433**	**$ 13,476,046**	**$ 8,250,711**	**$ 27,259,852**	**$ 63,643,042**
LIABILITIES					
Accounts payable	$ 1,559,416	$ 1,274,504	$ 530,970	$ 3,978,974	**$ 7,343,864**
Due to other funds	8,138,225	9,485,612	558,177	1,146,550	**19,328,564**
Due to component units	—	—	—	68,880	**68,880**
Due to other governments	3,244,914	2,556,587	195,423	2,556,961	**8,553,885**
Interfund payables	11,038,274	—	—	28,802	**11,067,076**
Tax overpayments	5,285,635	—	—	9,135	**5,294,770**
Deposits	2,085	—	5,194	258,598	**265,877**
Advance collections	366,305	51,626	18,884	267,452	**704,267**
Interest payable	1,040	9,148	—	217,483	**227,671**
Unclaimed property liability	737,724	—	—	—	**737,724**
General obligation bonds payable	—	—	—	407,995	**407,995**
Other liabilities	366,711	14,960	283,283	448,986	**1,113,940**
Total liabilities	**30,740,329**	**13,392,437**	**1,591,931**	**9,389,816**	**55,114,513**
FUND BALANCES					
Reserved for:					
Encumbrances	1,487,156	—	3,775,926	2,959,565	**8,222,647**
Interfund receivables	123,275	—	2,588,972	6,975,924	**9,688,171**
Loans receivable	109,673	85,026	—	2,838,469	**3,033,168**
Continuing appropriations	540,400	—	5,105,520	2,796,794	**8,442,714**
Debt service	—	—	—	339,370	**339,370**
Unreserved, reported in:					
General Fund	(18,344,400)	—	—	—	**(18,344,400)**
Special revenue funds	—	(1,417)	(4,811,638)	1,273,801	**(3,539,254)**
Capital projects funds	—	—	—	686,113	**686,113**
Total fund balances (deficit)	**(16,083,896)**	**83,609**	**6,658,780**	**17,870,036**	**8,528,529**
Total liabilities and fund balances	**$ 14,656,433**	**$ 13,476,046**	**$ 8,250,711**	**$ 27,259,852**	

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

(amounts in thousands)

Total fund balances – governmental funds		**$**	**8,528,529**
Amounts reported for governmental activities in the Statement of Net Assets are different from those in the Governmental Funds Balance Sheet because:			
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			96,389,396
• Other assets are not available to pay for current-period expenditures and, therefore, are not reported.			1,828,751
• Internal service funds are used by management to charge the costs of certain activities, such as architectural, procurement, and technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.			372,990
• Bond discounts, premiums, and deferred issue costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Assets.			(410,335)
• General obligation bonds totaling $68,065,723, revenue bonds totaling $8,269,596, and certificates of participation and commercial paper totaling $1,407,908 are not due and payable in the current period and, therefore, are not reported in the funds.			(77,743,227)
• Certain liabilities are not due and payable in the current period; therefore, adjustments to these liabilities are not reported in the funds:			
Compensated absences	(2,672,892)		
Capital leases	(4,448,638)		
Net other postemployment benefits obligation	(4,513,385)		
Mandated costs	(3,034,430)		
Workers' compensation	(2,251,165)		
Pollution remediation obligations	(605,003)		
Other noncurrent liabilities	(6,066,027)		
			(23,591,540)
Net assets of governmental activities		**$**	**5,374,564**

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2009
(amounts in thousands)

	General	Federal	Transportation	Nonmajor Governmental	Total
REVENUES					
Personal income taxes	$ 44,685,899	$ —	$ —	$ 796,827	$ 45,482,726
Sales and use taxes	23,781,261	—	1,518,672	6,125,375	31,425,308
Corporation taxes	10,738,140	—	—	—	10,738,140
Insurance taxes	2,063,555	—	—	—	2,063,555
Other taxes	485,966	—	2,963,151	1,796,299	5,245,416
Intergovernmental	—	58,957,376	—	2,095,715	61,053,091
Licenses and permits	224,071	—	3,226,001	2,355,297	5,805,369
Charges for services	189,899	—	451,165	345,709	986,773
Fees	298,741	—	19,252	5,025,809	5,343,802
Penalties	85,358	225	64,634	710,269	860,486
Investment and interest	556,511	—	40,421	511,126	1,108,058
Escheat	315,642	—	—	—	315,642
Other	777,936	—	74,980	3,080,119	3,933,035
Total revenues	**84,202,979**	**58,957,601**	**8,358,276**	**22,842,545**	**174,361,401**
EXPENDITURES					
Current:					
General government	3,402,099	1,498,711	23,869	8,151,222	13,075,901
Education	45,981,446	10,525,566	624,036	6,726,018	63,857,066
Health and human services	27,967,454	41,273,243	141,065	9,349,374	78,731,136
Resources	1,255,879	189,001	196,109	3,568,695	5,209,684
State and consumer services	528,585	49,863	108,037	579,583	1,266,068
Business and transportation	104,366	2,893,061	10,260,788	545,303	13,803,518
Correctional programs	8,934,157	860,377	—	89,059	9,883,593
Capital outlay	364,813	—	—	1,067,563	1,432,376
Debt service:					
Bond and commercial paper retirement	1,668,514	55,275	364,285	3,043,526	5,131,600
Interest and fiscal charges	2,397,909	21,918	25,214	1,139,317	3,584,358
Total expenditures	**92,605,222**	**57,367,015**	**11,743,403**	**34,259,660**	**195,975,300**
Excess (deficiency) of revenues over (under) expenditures	(8,402,243)	1,590,586	(3,385,127)	(11,417,115)	(21,613,899)
OTHER FINANCING SOURCES (USES)					
General obligation bonds and commercial paper issued	—	—	3,629,155	13,134,930	16,764,085
Revenue bonds issued	—	—	97,635	—	97,635
Premium on bonds issued	124,734	—	1,373	—	126,107
Capital leases	364,813	—	—	—	364,813
Transfers in	289,930	—	1,333,411	5,153,135	6,776,476
Transfers out	(4,292,261)	(1,549,729)	(461,672)	(385,996)	(6,689,658)
Total other financing sources (uses)	**(3,512,784)**	**(1,549,729)**	**4,599,902**	**17,902,069**	**17,439,458**
Net change in fund balances	(11,915,027)	40,857	1,214,775	6,484,954	(4,174,441)
Fund balances (deficit), July 1, 2008	**(4,168,869)**	**42,752**	**5,444,005 ***	**11,385,082 ***	**12,702,970**
Fund balances (deficit), June 30, 2009	**$ (16,083,896)**	**$ 83,609**	**$ 6,658,780**	**$ 17,870,036**	**$ 8,528,529**

* Restated

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

(amounts in thousands)

Net change in fund balances – total governmental funds		**$ (4,174,441)**
Amounts reported for governmental activities in the Statement of Activities are different from those in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because:		
• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		2,433,589
• Revenues in the Statement of Activities that do not provide current financial resources are deferred and not reported as revenues in the funds.		114,384
• Internal service funds are used by management to charge the costs of certain activities, such as architectural, procurement, and technology services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		(45,713)
• Bonds and other noncurrent financing instruments provide current financial resources to governmental funds in the form of debt, which increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The following amounts represent the difference between proceeds and repayments:		
General obligation bond	(12,442,654)	
Revenue bond	43,977	
Certificates of participation and commercial paper	328,181	
		(12,070,496)
• Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(711,119)	
Capital leases	(81,275)	
Net other postemployment benefits obligation	(2,270,554)	
Mandated costs	(506,065)	
Workers' compensation	(36,478)	
Pollution remediation obligations	20,971	
Other noncurrent liabilities	(554,013)	
		(4,138,533)
Change in net assets of governmental activities		**$ (17,881,210)**

Statement of Net Assets

Proprietary Funds

June 30, 2009
(amounts in thousands)

	Electric Power	Water Resources
ASSETS		
Current assets:		
Cash and pooled investments	$ —	$ 369,820
Amount on deposit with U.S. Treasury	—	—
Investments	—	—
Restricted assets:		
Cash and pooled investments	1,593,000	—
Due from other governments	—	—
Net investment in direct financing leases	—	—
Receivables (net)	—	75,447
Due from other funds	13,000	2,803
Due from other governments	—	39,110
Prepaid items	—	—
Inventories	—	13,988
Recoverable power costs (net)	468,000	—
Other current assets	72,000	—
Total current assets	2,146,000	501,168
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments	1,193,000	59,869
Investments	300,000	75,477
Loans receivable	—	—
Investments	—	—
Net investment in direct financing leases	—	—
Receivables	—	—
Interfund receivables	—	91,517
Loans receivable	—	22,360
Recoverable power costs (net)	5,691,000	—
Deferred charges	—	1,181,760
Capital assets:		
Land	—	—
Collections – nondepreciable	—	—
Buildings and other depreciable property	—	4,646,914
Less: accumulated depreciation	—	(2,008,520)
Construction in progress	—	461,208
Other noncurrent assets	—	—
Total noncurrent assets	7,184,000	4,530,585
Total assets	**$ 9,330,000**	**$ 5,031,753**

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds					Governmental Activities
Public Building Construction	State Lottery	Unemployment Programs	Nonmajor Enterprise	Total	Internal Service Funds
$ —	$ 285,743	$ 45,294	$ 1,227,941	$ 1,928,798	$ 685,351
—	—	118,013	—	118,013	—
—	245,064	—	196,767	441,831	—
—	—	—	47,248	1,640,248	—
—	—	—	58,788	58,788	—
360,746	—	—	17,766	378,512	—
47,574	194,427	207,501	84,358	609,307	97,105
17,923	1,872	167,060	6,584	209,242	398,958
—	—	82,729	136,401	258,240	12,126
—	7,149	—	1,060	8,209	104,293
—	5,332	—	3,220	22,540	85,119
—	—	—	—	468,000	—
—	—	—	518	72,518	—
426,243	739,587	620,597	1,780,651	6,214,246	1,382,952
—	—	—	16,053	1,268,922	—
24,287	—	—	11,912	411,676	—
—	—	—	395,029	395,029	—
—	1,250,387	—	429,376	1,679,763	—
6,294,071	—	—	467,229	6,761,300	—
—	—	47,071	—	47,071	—
—	—	1,046,323	213,099	1,350,939	33,242
—	—	—	3,990,378	4,012,738	—
—	—	—	—	5,691,000	—
60,793	2,780	—	41,357	1,286,690	—
—	6,469	—	43,217	49,686	231
—	—	—	29	29	—
—	110,870	10,816	3,323,354	8,091,954	622,690
—	(71,973)	(4,592)	(1,178,969)	(3,264,054)	(434,382)
961,158	—	—	559,289	1,981,655	15,370
—	—	—	26,070	26,070	—
7,340,309	1,298,533	1,099,618	8,337,423	29,790,468	237,151
$ 7,766,552	**$ 2,038,120**	**$ 1,720,215**	**$ 10,118,074**	$ 36,004,714	**$ 1,620,103**

(continued)

The notes to the financial statements are an integral part of this statement.

Statement of Net Assets (continued)

Proprietary Funds

June 30, 2009
(amounts in thousands)

	Electric Power	Water Resources
LIABILITIES		
Current liabilities:		
Accounts payable	$ 264,482	$ 86,096
Due to other funds	—	12,222
Due to component units	—	—
Due to other governments	—	120,382
Deferred revenue	—	—
Deposits	—	—
Contracts and notes payable	—	—
Advance collections	—	—
Interest payable	63,000	19,251
Benefits payable	—	—
Current portion of long-term obligations	530,000	178,284
Other current liabilities	—	—
Total current liabilities	857,482	416,235
Noncurrent liabilities:		
Interfund payables	—	—
Benefits payable	—	—
Loans payable	—	—
Lottery prizes and annuities	—	—
Compensated absences payable	—	—
Certificates of participation, commercial paper, and other borrowings	—	9,897
Capital lease obligations	—	—
General obligation bonds payable	—	476,915
Revenue bonds payable	8,471,000	2,481,799
Net other postemployment benefits obligation	1,518	47,897
Other noncurrent liabilities	—	393,579
Total noncurrent liabilities	8,472,518	3,410,087
Total liabilities	**9,330,000**	**3,826,322**
NET ASSETS		
Investment in capital assets, net of related debt	—	272,984
Restricted – Expendable:		
Construction	—	932,447
Debt service	—	—
Security for revenue bonds	—	—
Lottery	—	—
Unemployment programs	—	—
Other purposes	—	—
Total expendable	—	932,447
Unrestricted	—	—
Total net assets (deficit)	**–-**	**1,205,431**
Total liabilities and net assets	**$ 9,330,000**	**$ 5,031,753**

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds					Governmental Activities
Public Building Construction	**State Lottery**	**Unemployment Programs**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
$ 33,238	$ 36,274	$ 737	$ 127,204	**$ 548,031**	$ 295,393
53,196	270,718	55,751	11,121	**403,008**	207,652
—	—	—	—	**—**	3,296
4,413	—	49,210	6	**174,011**	10
—	—	—	62,385	**62,385**	—
—	—	—	4,987	**4,987**	6,545
—	—	—	—	**—**	15,195
18,454	3,124	—	356	**21,934**	323,777
71,862	—	—	53,225	**207,338**	—
—	—	1,038,148	—	**1,038,148**	—
382,707	474,094	—	170,623	**1,735,708**	18,972
—	—	73,201	5,533	**78,734**	7,012
563,870	784,210	1,217,047	435,440	**4,274,284**	877,852
—	—	—	2,060	**2,060**	133,358
—	—	—	5,490	**5,490**	—
—	—	1,944,070	—	**1,944,070**	—
—	1,089,742	—	—	**1,089,742**	—
—	5,394	25,727	10,290	**41,411**	78,056
—	—	—	41,410	**51,307**	—
—	—	—	—	**—**	5,722
—	—	—	1,107,272	**1,584,187**	—
6,957,492	—	—	4,042,669	**21,952,960**	—
—	9,674	32,523	8,890	**100,502**	106,363
—	2,062	—	120,903	**516,544**	45,762
6,957,492	1,106,872	2,002,320	5,338,984	**27,288,273**	369,261
7,521,362	**1,891,082**	**3,219,367**	**5,774,424**	**31,562,557**	**1,247,113**
—	45,366	6,224	(455,208)	**(130,634)**	165,631
228,285	—	—	368,448	**1,529,180**	—
16,905	—	—	59,120	**76,025**	—
—	—	—	453,817	**453,817**	—
—	147,038	—	—	**147,038**	—
—	—	1,188,966	—	**1,188,966**	—
—	—	—	460,025	**460,025**	—
245,190	147,038	1,188,966	1,341,410	**3,855,051**	—
—	(45,366)	(2,694,342)	3,457,448	**717,740**	207,359
245,190	**147,038**	**(1,499,152)**	**4,343,650**	**4,442,157**	**372,990**
$ 7,766,552	**$ 2,038,120**	**$ 1,720,215**	**$ 10,118,074**	**$ 36,004,714**	**$ 1,620,103**

(concluded)

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2009
(amounts in thousands)

	Electric Power	Water Resources
OPERATING REVENUES		
Unemployment and disability insurance	$ —	$ —
Lottery ticket sales	—	—
Power sales	3,604,000	175,318
Student tuition and fees	—	—
Services and sales	—	739,519
Investment and interest	—	—
Rent	—	—
Other	—	—
Total operating revenues	**3,604,000**	**914,837**
OPERATING EXPENSES		
Lottery prizes	—	—
Power purchases (net of recoverable power costs)	3,568,000	206,632
Personal services	—	220,493
Supplies	—	—
Services and charges	36,000	267,473
Depreciation	—	77,269
Distributions to beneficiaries	—	—
Interest expense	—	—
Amortization of deferred charges	—	—
Other	—	—
Total operating expenses	**3,604,000**	**771,867**
Operating income (loss)	—	142,970
NONOPERATING REVENUES (EXPENSES)		
Investment and interest income	956,000	—
Interest expense and fiscal charges	(956,000)	(130,054)
Lottery payments for education	—	—
Other	—	(12,916)
Total nonoperating revenues (expenses)	**––**	**(142,970)**
Income (loss) before contributions and transfers	—	—
Capital contributions	—	—
Transfers in	—	—
Transfers out	—	—
Change in net assets	—	—
Total net assets, July 1, 2008	**—**	**1,205,431**
Total net assets (deficit), June 30, 2009	**$ ––**	**$ 1,205,431**

* Restated

Business-type Activities – Enterprise Funds					Governmental Activities
Public Building Construction	State Lottery	Unemployment Programs	Nonmajor Enterprise	Total	Internal Service Funds
$ —	$ —	$ 14,197,739	$ —	$ 14,197,739	$ —
—	2,954,839	—	—	2,954,839	—
—	—	—	—	3,779,318	—
—	—	—	604,352	604,352	—
—	—	—	111,839	851,358	2,764,254
13,700	—	—	160,318	174,018	—
352,431	—	—	20,481	372,912	—
20	—	—	162,609	162,629	—
366,151	**2,954,839**	**14,197,739**	**1,059,599**	**23,097,165**	**2,764,254**
—	1,556,121	—	—	1,556,121	—
—	—	—	—	3,774,632	—
—	49,168	158,459	216,521	644,641	787,429
—	11,350	—	—	11,350	13,369
78,489	322,708	66,569	194,237	965,476	1,897,634
—	12,965	563	91,526	182,323	44,598
—	—	19,383,477	—	19,383,477	—
335,248	—	—	248,483	583,731	418
6,728	—	—	2,439	9,167	—
—	—	—	27,837	27,837	—
420,465	**1,952,312**	**19,609,068**	**781,043**	**27,138,755**	**2,743,448**
(54,314)	1,002,527	(5,411,329)	278,556	(4,041,590)	20,806
—	96,073	76,236	37,613	1,165,922	1,081
—	(89,324)	—	(7,747)	(1,183,125)	(1,439)
—	(1,027,729)	—	—	(1,027,729)	—
—	408	—	21,100	8,592	(358)
––	**(1,020,572)**	**76,236**	**50,966**	**(1,036,340)**	**(716)**
(54,314)	(18,045)	(5,335,093)	329,522	(5,077,930)	20,090
—	—	—	71,882	71,882	—
—	—	—	204	204	397
(50)	—	—	(21,169)	(21,219)	(66,200)
(54,364)	(18,045)	(5,335,093)	380,439	(5,027,063)	(45,713)
299,554	**165,083**	**3,835,941**	**3,963,211 ***	9,469,220	**418,703**
$ 245,190	**$ 147,038**	**$ (1,499,152)**	**$ 4,343,650**	$ 4,442,157	**$ 372,990**

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2009
(amounts in thousands)

	Electric Power	Water Resources
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers/employers	$ 3,645,000	$ 964,880
Receipts from interfund services provided	—	—
Payments to suppliers	(3,986,000)	(425,510)
Payments to employees	—	(220,493)
Payments for interfund services used	—	—
Payments for Lottery prizes	—	—
Claims paid to other than employees	—	—
Other receipts (payments)	30,000	(71,178)
Net cash provided by (used in) operating activities	**(311,000)**	**247,699**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	—	—
Proceeds from bonds	6,000	—
Receipts of bond charges	875,000	—
Retirement of general obligation bonds	—	—
Retirement of revenue bonds	(493,000)	—
Retirement of notes payable and commercial paper	—	—
Interest paid on operating debt	(399,000)	—
Transfers in	—	—
Transfers out	—	—
Lottery payments for education	—	—
Net cash provided by (used in) noncapital financing activities	**(11,000)**	**––**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	—	—
Acquisition of intangible assets	—	—
Acquisition of capital assets	—	(102,116)
Proceeds from sale of capital assets	—	—
Proceeds from notes payable and commercial paper	—	23,905
Principal paid on notes payable and commercial paper	—	(33,360)
Retirement of general obligation bonds	—	(52,695)
Proceeds from revenue bonds	—	291,784
Retirement of revenue bonds	—	(344,715)
Interest paid	—	(144,065)
Grants received	—	—
Net cash provided by (used in) capital and related financing activities	**––**	**(361,262)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	—	(201,740)
Proceeds from maturity and sale of investments	150,000	201,739
Change in interfund receivables and loans receivable	—	1,744
Earnings on investments	97,000	18,705
Net cash provided by (used in) investing activities	**247,000**	**20,448**
Net increase (decrease) in cash and pooled investments	(75,000)	(93,115)
Cash and pooled investments at July 1, 2008	**2,861,000**	**522,804**
Cash and pooled investments at June 30, 2009	**$ 2,786,000**	**$ 429,689**

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds					Governmental Activities
Public Building Construction	State Lottery	Unemployment Programs	Nonmajor Enterprise	Total	Internal Service Funds
$ 689,492	$ 2,934,524	$ 14,173,941	$ 796,999	**$ 23,204,836**	$ 2,662,368
—	—	—	2,794	**2,794**	100,095
(76,111)	(124,161)	(66,571)	(186,085)	**(4,864,438)**	(1,857,344)
—	(39,011)	(129,544)	(208,623)	**(597,671)**	(702,316)
—	(10,470)	—	(904)	**(11,374)**	(40,210)
—	(1,857,931)	—	—	**(1,857,931)**	—
—	(208,110)	(18,844,058)	(2)	**(19,052,170)**	(4,050)
(256,427)	68,084	(215,147)	(119,507)	**(564,175)**	(140,131)
356,954	**762,925**	**(5,081,379)**	**284,672**	**(3,740,129)**	**18,412**
—	—	1,944,070	(457)	**1,943,613**	(112,679)
—	—	—	—	**6,000**	—
—	—	—	—	**875,000**	—
—	—	—	(152,265)	**(152,265)**	—
—	—	—	(81,865)	**(574,865)**	—
—	—	—	(10,500)	**(10,500)**	—
—	—	—	(8,975)	**(407,975)**	(30)
—	—	—	398	**398**	397
(50)	—	—	(22,964)	**(23,014)**	(66,200)
—	(1,015,586)	—	—	**(1,015,586)**	—
(50)	**(1,015,586)**	**1,944,070**	**(276,628)**	**640,806**	**(178,512)**
—	—	—	1,022	**1,022**	—
—	—	—	(18)	**(18)**	—
(639,673)	(7,862)	—	(912,735)	**(1,662,386)**	(31,504)
—	104	207	272,389	**272,700**	3,173
—	—	—	130,982	**154,887**	—
—	—	—	(126,924)	**(160,284)**	(11,373)
—	—	—	—	**(52,695)**	—
643,328	—	—	458,465	**1,393,577**	—
(360,559)	—	—	(43,572)	**(748,846)**	—
—	—	—	(129,238)	**(273,303)**	(1,827)
—	—	—	73,781	**73,781**	—
(356,904)	**(7,758)**	**207**	**(275,848)**	**(1,001,565)**	**(41,531)**
—	(677,710)	—	(372,569)	**(1,252,019)**	—
—	943,159	2,548,347	258,239	**4,101,484**	—
—	—	(1,046,323)	(209,439)	**(1,254,018)**	(33,242)
—	10,237	76,236	38,755	**240,933**	1,571
––	**275,686**	**1,578,260**	**(285,014)**	**1,836,380**	**(31,671)**
—	15,267	(1,558,842)	(552,818)	**(2,264,508)**	(233,302)
—	**270,476**	**1,604,136**	**1,844,060**	**7,102,476**	**918,653**
$ ––	**$ 285,743**	**$ 45,294**	**$ 1,291,242**	**$ 4,837,968**	**$ 685,351**

(continued)

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2009
(amounts in thousands)

	Electric Power	Water Resources
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	$ —	$ 142,970
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Interest expense on operating debt	—	—
Depreciation	—	77,269
Accretion of capital appreciation bonds	—	—
Provisions and allowances	—	—
Accrual of deferred charges	—	—
Amortization of discounts	—	—
Amortization of deferred charges	—	44,870
Other	—	(71,178)
Change in assets and liabilities:		
Receivables	—	34,205
Due from other funds	—	—
Due from other governments	—	(12,142)
Prepaid items	—	—
Inventories	—	5,047
Net investment in direct financing leases	—	—
Recoverable power costs (net)	(291,000)	—
Other current assets	189,000	—
Loans receivable	—	—
Interfund receivable	—	—
Accounts payable	(209,000)	27,086
Due to other funds	—	(1,838)
Due to component units	—	—
Due to other governments	—	1,410
Deposits	—	—
Contracts and notes payable	—	—
Advance collections	—	—
Interest payable	—	—
Other current liabilities	—	—
Deferred revenue	—	—
Benefits payable	—	—
Lottery prizes and annuities	—	—
Compensated absences payable	—	—
Capital lease obligations	—	—
Other noncurrent liabilities	—	—
Total adjustments	(311,000)	104,729
Net cash provided by (used in) operating activities	**$ (311,000)**	**$ 247,699**
Noncash investing, capital, and financing activities		
Interest accreted on annuitized prizes	$ —	$ —
Unclaimed Lottery prizes directly transferred to Education Fund	—	—
Unrealized loss on investment	(150,000)	—
Capital acquisitions financed through notes payable	—	—
Modification to notes payable	—	—
Long-term debt retirement from proceeds on issuance of bonds	—	266,680

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds					Governmental Activities
Public Building Construction	**State Lottery**	**Unemployment Programs**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
$ (54,314)	$ 1,002,527	$ (5,411,329)	$ 278,556	$ (4,041,590)	$ 20,806
—	—	—	129,238	129,238	388
—	12,965	563	91,526	182,323	44,598
1,381	—	—	167	1,548	—
—	(143)	—	11,293	11,150	—
(5,015)	—	—	—	(5,015)	—
(4,965)	—	—	92	(4,873)	—
6,727	2,746	—	4,537	58,880	—
(141)	4,947	—	25,379	(40,993)	—
64,420	(34,937)	(23,798)	5,249	45,139	(41,732)
(2,786)	(568)	(216,431)	7,941	(211,844)	65,952
—	—	(48,244)	3,086	(57,300)	2,355
—	—	—	3,579	3,579	(15,373)
—	1,510	—	432	6,989	4,076
342,438	—	—	(125,742)	216,696	—
—	—	—	—	(291,000)	—
—	3,389	—	(16,706)	175,683	—
—	—	—	(191,116)	(191,116)	—
—	—	—	23	23	—
351	4,890	(2)	73,032	(103,643)	22,762
(24)	(157)	69,381	(13,346)	54,016	(75,255)
—	—	—	—	––	4
2,379	—	34,418	(72)	38,135	(22,346)
—	—	—	256	256	157
—	—	—	—	––	(1,573)
(508)	77	—	(2,932)	(3,363)	(72,008)
7,011	—	—	4,396	11,407	—
—	—	(43,333)	(3,400)	(46,733)	3,616
—	—	—	1,736	1,736	—
—	—	528,481	(2,347)	526,134	—
—	(235,069)	—	—	(235,069)	—
—	47	12,830	4,549	17,426	30,052
—	—	—	—	––	(1,646)
—	701	16,085	(4,734)	12,052	53,579
411,268	(239,602)	329,950	6,116	301,461	(2,394)
$ 356,954	**$ 762,925**	**$ (5,081,379)**	**$ 284,672**	**$ (3,740,129)**	**$ 18,412**
					(concluded)

$	$ —	89,325	$ —	$ —	$ 89,325	$ —
	—	20,965	—	—	20,965	—
	—	(966)	—	—	(150,966)	—
	—	—	—	—	––	7,033
	—	—	—	—	––	(319)
	—	—	—	—	266,680	—

The notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

June 30, 2009
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust — Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 47,919	$ 2,179,757	$ 25,251,903	$ 3,404,170
Investments, at fair value:				
Short-term	—	13,878,375	—	—
Equity securities	44,368	143,776,665	—	—
Debt securities	—	78,389,542	—	—
Real estate	—	26,019,447	—	—
Other	2,958,548	47,678,713	—	—
Securities lending collateral	—	47,337,352	—	—
Total investments	3,002,916	357,080,094	—	—
Receivables (net)	26,458	6,766,580	—	690,109
Due from other funds	11	413,336	—	11,693,161
Due from other governments	—	7	—	15,877
Prepaid Items	—	—	—	19,437
Interfund receivables	—	—	—	199,437
Loans receivable	—	—	—	78,644
Other assets	148,079	685,589	—	227
Total assets	**3,225,383**	**367,125,363**	**25,251,903**	**$ 16,101,062**
LIABILITIES				
Accounts payable	9,481	3,327,367	50	$ 6,005,065
Due to other funds	26,441	1,025	234	—
Due to other governments	—	1,384	98,481	8,306,905
Tax overpayments	—	—	—	1,071
Benefits payable	—	1,842,887	—	177,278
Deposits	148,079	—	—	964,393
Advance collections	—	—	—	57,129
Securities lending obligations	—	48,594,665	—	—
Interfund payables	—	—	—	69,295
Loans payables	—	5,387,269	—	—
Other liabilities	4,239	1,913,179	—	519,926
Total liabilities	**188,240**	**61,067,776**	**98,765**	**$ 16,101,062**
NET ASSETS				
Held in trust for pension benefits, pool participants, and other purposes	**$ 3,037,143**	**$ 306,057,587**	**$ 25,153,138**	

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2009
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust: Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 11,425,820	$ —
Plan member	—	7,243,015	—
Total contributions	—	18,668,835	—
Investment income:			
Net depreciation in fair value of investments	(355,520)	(101,838,553)	—
Interest, dividends, and other investment income	77,730	6,610,006	515,568
Less: investment expense	(115,353)	(4,022,792)	—
Net investment income	(393,143)	(99,251,339)	515,568
Receipts from depositors	868,537	—	28,961,040
Other	—	25,589	—
Total additions	**475,394**	**(80,556,915)**	**29,476,608**
DEDUCTIONS			
Distributions paid and payable to participants	—	20,943,148	513,922
Refunds of contributions	—	295,957	—
Administrative expense	25	561,314	1,646
Payments to and for depositors	579,595	344,735	28,968,815
Total deductions	**579,620**	**22,145,154**	**29,484,383**
Change in net assets	(104,226)	(102,702,069)	(7,775)
Net assets, July 1, 2008	**3,141,369**	**408,759,656 ***	**25,160,913**
Net assets, June 30, 2009	**$ 3,037,143**	**$ 306,057,587**	**$ 25,153,138**

* Restated

The notes to the financial statements are an integral part of this statement.

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Discretely Presented Component Units Financial Statements

Statement of Net Assets

Discretely Presented Component Units – Enterprise Activity

June 30, 2009
(amounts in thousands)

	University of California	State Compensation Insurance	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
ASSETS						
Current assets:						
Cash and pooled investments	$ 671,159	$ 1,334,074	$ 1,506,838	$ 544,297	$ 666,287	$ 4,722,655
Investments	4,432,309	1,826,958	237,604	14,867	187,572	6,699,310
Restricted assets:						
Cash and pooled investments	—	—	—	—	72,832	72,832
Investments	—	—	—	—	72,438	72,438
Receivables (net)	2,318,597	742,377	376,446	4,229	346,368	3,788,017
Due from primary government	68,562	—	—	2,623	991	72,176
Due from other governments	349,954	—	—	35,111	59,548	444,613
Prepaid items	—	1,377	583	—	1,734	3,694
Inventories	166,229	—	—	—	227	166,456
Other current assets	148,847	17,661	68	—	143,010	309,586
Total current assets	8,155,657	3,922,447	2,121,539	601,127	1,551,007	16,351,777
Noncurrent assets:						
Restricted assets:						
Cash and pooled investments	—	—	—	—	99,086	99,086
Investments	—	—	—	—	7,513	7,513
Investments	15,812,968	17,303,017	241,648	2,526,487	917,467	36,801,587
Receivables (net)	680,674	—	—	—	280,511	961,185
Loans receivable	—	—	8,013,055	—	333,665	8,346,720
Deferred charges	—	—	38,343	—	1,740	40,083
Capital assets:						
Land	695,640	64,873	—	—	109,381	869,894
Collections – nondepreciable	307,137	—	—	—	5,316	312,453
Buildings and other depreciable property	30,809,219	653,666	1,515	—	1,873,420	33,337,820
Less: accumulated depreciation	(13,409,964)	(290,057)	(709)	—	(736,766)	(14,437,496)
Construction in progress	2,874,883	—	—	—	58,692	2,933,575
Other noncurrent assets	260,386	—	95,669	—	89,166	445,221
Total noncurrent assets	38,030,943	17,731,499	8,389,521	2,526,487	3,039,191	69,717,641
Total assets	**$ 46,186,600**	**$ 21,653,946**	**$ 10,511,060**	**$ 3,127,614**	**$ 4,590,198**	**$ 86,069,418**

The notes to the financial statements are an integral part of this statement.

	University of California	State Compensation Insurance	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
LIABILITIES						
Current liabilities:						
Accounts payable	$ 1,824,377	$ 66,319	$ 48,549	$ 362,819	$ 101,567	$ 2,403,631
Due to primary government	516,295	—	—	—	—	516,295
Due to other governments	—	—	5	—	2,105	2,110
Dividends payable	—	1,000	—	—	—	1,000
Deferred revenue	960,688	—	—	—	59,577	1,020,265
Deposits	331,773	—	170,391	—	22,923	525,087
Contracts and notes payable	—	—	—	—	21,847	21,847
Advance collections	—	94,180	—	—	544	94,724
Interest payable	—	—	163,574	—	2,391	165,965
Securities lending obligations	2,388,326	—	—	—	—	2,388,326
Benefits payable	—	1,759,203	—	—	—	1,759,203
Current portion of long-term obligations	1,270,987	72,042	138,687	28,872	116,633	1,627,221
Other current liabilities	1,638,274	130,162	80,579	77,248	215,984	2,142,247
Total current liabilities	8,930,720	2,122,906	601,785	468,939	543,571	12,667,921
Noncurrent liabilities:						
Benefits payable	—	13,624,144	—	2,756,587	—	16,380,731
Loans payable	—	—	—	29,873	—	29,873
Compensated absences payable	219,820	—	—	—	10,766	230,586
Certificates of participation, commercial paper, and other borrowings	—	—	—	—	87,428	87,428
Capital lease obligations	2,234,367	—	—	—	370,995	2,605,362
Revenue bonds payable	7,518,300	—	8,107,250	—	521,040	16,146,590
Net other postemployment benefits	2,377,128	157,221	4,594	4,262	117,094	2,660,299
Pollution remediation obligations	41,198	—	—	—	—	41,198
Other noncurrent liabilities	1,159,086	351,287	49,963	—	293,465	1,853,801
Total noncurrent liabilities	13,549,899	14,132,652	8,161,807	2,790,722	1,400,788	40,035,868
Total liabilities	**22,480,619**	**16,255,558**	**8,763,592**	**3,259,661**	**1,944,359**	**52,703,789**
NET ASSETS						
Investment in capital assets, net of related debt	10,822,512	428,482	806	—	561,581	11,813,381
Restricted:						
Nonexpendable	2,813,868	—	—	—	698,221	3,512,089
Expendable:						
Endowments and gifts	5,741,040	—	—	—	5,067	5,746,107
Education	768,219	—	—	—	535,083	1,303,302
Indenture	—	—	534,440	—	—	534,440
Employee benefits	—	—	—	679,592	—	679,592
Workers' compensation liability	—	4,969,906	—	—	—	4,969,906
Statute	—	—	1,212,222	—	263,389	1,475,611
Other purposes	—	—	—	—	244,089	244,089
Total expendable	6,509,259	4,969,906	1,746,662	679,592	1,047,628	14,953,047
Unrestricted	3,560,342	—	—	(811,639)	338,409	3,087,112
Total net assets (deficit)	**23,705,981**	**5,398,388**	**1,747,468**	**(132,047)**	**2,645,839**	**33,365,629**
Total liabilities and net assets	**$ 46,186,600**	**$ 21,653,946**	**$ 10,511,060**	**$ 3,127,614**	**$ 4,590,198**	**$ 86,069,418**

The notes to the financial statements are an integral part of this statement.

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2009
(amounts in thousands)

	University of California	State Compensation Insurance Fund	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
OPERATING EXPENSES						
Personal services	$ 13,211,909	$ 592,827	$ 26,982	$ —	$ 556,769	$ 14,388,487
Scholarships and fellowships	451,263	—	—	—	42,108	493,371
Supplies	2,210,319	—	—	—	8,477	2,218,796
Services and charges	309,842	81,037	212,117	2,178,999	1,313,758	4,095,753
Department of Energy laboratories	661,863	—	—	—	—	661,863
Depreciation	1,197,404	43,801	201	—	69,801	1,311,207
Distributions to beneficiaries	—	1,342,282	—	—	—	1,342,282
Interest expense and fiscal charges	355,882	—	427,297	—	42,395	825,574
Amortization of deferred charges	—	158,207	56,760	—	100	215,067
Grants provided	444,730	—	72,832	—	—	517,562
Other	2,876,106	156,875	—	—	104,735	3,137,716
Total operating expenses	**21,719,318**	**2,375,029**	**796,189**	**2,178,999**	**2,138,143**	**29,207,678**
PROGRAM REVENUES						
Charges for services	10,865,007	1,587,327	532,137	1,908,855	1,289,129	16,182,455
Operating grants and contributions	7,449,115	—	521,265	—	538,189	8,508,569
Capital grants and contributions	154,998	—	—	—	15,954	170,952
Total program revenues	**18,469,120**	**1,587,327**	**1,053,402**	**1,908,855**	**1,843,272**	**24,861,976**
Net (expense) revenue	(3,250,198)	(787,702)	257,213	(270,144)	(294,871)	(4,345,702)
GENERAL REVENUES						
Investment and interest income (loss)	(1,490,931)	1,152,651	11,033	(343,442)	(160,395)	(831,084)
Other	1,848,580	130,000	34,118	249	276,170	2,289,117
Total general revenues	**357,649**	**1,282,651**	**45,151**	**(343,193)**	**115,775**	**1,458,033**
Change in net assets	(2,892,549)	494,949	302,364	(613,337)	(179,096)	(2,887,669)
Net assets, July 1, 2008	**26,598,530 ***	**4,903,439**	**1,445,104**	**481,290**	**2,824,935**	**36,253,298**
Net assets (deficit), June 30, 2009	**$ 23,705,981**	**$ 5,398,388**	**$ 1,747,468**	**$ (132,047)**	**$ 2,645,839**	**$ 33,365,629**

* Restated

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements – Index

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The provisions of the following Governmental Accounting Standards Board (GASB) Statements have been implemented for the year ended June 30, 2009:

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*; *and*

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments.*

A. Reporting Entity

These financial statements present the primary government of the State and its component units. The **primary government** consists of all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from the State. **Component units** are organizations that are legally separate from the State but for which the State is financially accountable or organizations whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The decision to include a component unit in the State's reporting entity is based on several criteria, including legal standing, fiscal dependency, and financial accountability. Following is information on the blended, fiduciary, and discretely presented component units of the State.

1. Blended Component Units

Blended component units, although legally separate entities, are in substance part of the primary government's operations. Therefore, data from these blended component units are integrated into the appropriate funds for reporting purposes.

Building authorities are blended component units because they have been created through the use of joint exercise-of-powers agreements with various cities to finance the construction of state buildings. The building authorities are reported as capital projects funds. As a result, capital lease arrangements between the building authorities and the State in the amount of $480 million have been eliminated from the financial statements. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide financial statements. For information on how to obtain copies of the financial statements of the building authorities, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

The *Golden State Tobacco Securitization Corporation (GSTSC)* is a not-for-profit corporation established through legislation in September 2002 solely for the purpose of purchasing Tobacco Settlement Revenues from the State. The five voting members of the State Public Works Board serve ex officio as the directors of the corporation. GSTSC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. GSTSC is reported in the combining statements in the Nonmajor Governmental Funds section as a special revenue fund. For information on how to obtain copies of the financial statements of GSTSC, contact the Department of Finance, Resources, Environmental and Capital Outlay Section, 915 L Street, 9th Floor, Sacramento, California 94814.

2. Fiduciary Component Units

The State has two fiduciary component units that administer pension and other employee benefit trust funds. These entities are legally separate from the State and meet the definition of a component unit because they are fiscally dependent on the State; however, due to their fiduciary nature, they are presented in the Fiduciary Fund Statements as pension and other employee benefit trust funds, along with other primary government fiduciary funds.

The *California Public Employees' Retirement System (CalPERS)* administers pension and health benefit plans for state employees, non-teaching school employees, and employees of California public agencies. Its Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the plans. CalPERS administers the following seven pension and other employee benefit trust funds: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, the Legislators' Retirement Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the public employee Replacement Benefits Fund, and the public employee Supplemental Contributions Program Fund. Copies of CalPERS' separately issued financial statements may be obtained in writing from the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229-2703.

The *California State Teachers' Retirement System (CalSTRS)* administers pension benefit plans for California public school teachers and certain other employees of the public school system. CalSTRS administers three pension and other employee benefit trust funds: the State Teachers' Retirement Fund; the Teachers' Health Benefits Fund; and the Pension2 Program, formally known as the Voluntary Investment Program. Copies of CalSTRS' separately issued financial statements may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, California 95851-0275.

3. Discretely Presented Component Units

Enterprise activity of discretely presented component units is reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the primary government and mostly provide services to entities and individuals outside the primary government. Discretely presented component units that report enterprise activity include the University of California, the State Compensation Insurance Fund, the California Housing Finance Agency, the Public Employees' Benefits Fund, and nonmajor component units.

The *University of California* was founded in 1868 as a public, state-supported, land grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California. The University of California is a component unit of the State because the State appoints a voting majority of the regents and because expenditures for the support of various university programs and capital outlay are appropriated by the annual Budget Act. The University of California offers defined benefit pension plans and defined contribution pension plans to its employees through the University of California Retirement System (UCRS). The UCRS is a discretely presented fiduciary unit of the university; and as such, the financial information of the UCRS is not included in the financial statements of this report. Copies of the University of California's and the UCRS' separately issued financial statements may be obtained from the University of California, Financial Management, 1111 Franklin Street, 10th Floor, Oakland, California 94607-5200.

The *State Compensation Insurance Fund (SCIF)* is a self-supporting enterprise created to offer insurance protection to employers at the lowest possible cost. It operates in competition with other insurance carriers to provide services to the State, counties, cities, school districts, and other public corporations. It is a component unit of the State because the State appoints all five voting members of SCIF's governing board and has the authority to approve or modify SCIF's budget. Copies of SCIF's financial statements for the year ended December 31, 2008, may be obtained from the State Compensation Insurance Fund, P.O. Box 420807, San Francisco, California 94142-0807.

The *California Housing Finance Agency (CalHFA)* was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. CalHFA's purpose is to meet the housing needs of persons and families of low and moderate income. It is a component unit of the State because the State appoints a voting majority of CalHFA's governing board and has the authority to approve or modify its budget. Copies of CalHFA's financial statements may be obtained from the California Housing Finance Agency, P.O. Box 4034, Sacramento, California 95812.

The *Public Employees' Benefits Fund*, which is administered by the California Public Employees' Retirement System and accounts for contributions and premiums for public employee long-term care plans and for administration of a deferred compensation program. Copies of CalPERS' separately issued financial statements may be obtained in writing from the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229-2703.

State legislation created various *nonmajor component units* to provide certain services outside the primary government and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. The California Pollution Control Financing Authority, the San Joaquin River Conservancy, and the district agricultural associations are considered component units because they have a fiscal dependency on the primary government. The California Educational Facilities Authority is considered a component unit because its exclusion from the statements would be misleading because of its relationship to the primary government. California State University auxiliary organizations are considered component units because they exist entirely or almost entirely for the direct benefit of the universities. The remaining nonmajor component units are considered component units because the majority of members of their governing boards are appointed by or are members of the primary government, because the primary government can impose its will on the entity, or because the entity provides a specific financial benefit to the primary government. For information on how to obtain copies of the financial statements of these component units, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

The nonmajor component units are:

The *California Alternative Energy and Advanced Transportation Financing Authority*, which provides financing for alternative energy and advanced transportation technologies;

The *California Infrastructure and Economic Development Bank*, which provides financing for business development and public improvements;

The *California Pollution Control Financing Authority*, which provides financing for pollution control facilities;

The *California Health Facilities Financing Authority*, which provides financing for the construction, equipping, and acquisition of health facilities;

The *California Educational Facilities Authority*, which issues revenue bonds to finance loans for students attending public and private nonprofit colleges and universities and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities (the EdFund financial report included in this entity is as of and for the year ended September 30, 2008);

The *California School Finance Authority,* which provides loans to school and community college districts to assist them in obtaining equipment and facilities;

California State University auxiliary organizations, which provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations. Starting in fiscal year 2008-09, the California State University, Channel Island Site and Financing authorities, which used to be blended component units under the California State University Programs special revenue fund, are included as part of the California State University auxiliary organizations;

District agricultural associations, which exhibit all of the industries, industrial enterprises, resources, and products of the state (the district agricultural association's financial report is as of and for the year ended December 31, 2008);

The *University of California Hastings College of the Law*, which was established as the law department of the University of California to provide legal education programs and operates independently under its own board of directors. The college has a discretely presented component unit, the Foundation, that provides private sources of funds for academic programs, scholarships, and faculty research;

The *San Joaquin River Conservancy*, which was created to acquire and manage public lands within the San Joaquin River Parkway; and

The *California Urban Waterfront Area Restoration Financing Authority*, which provides financing for coastal and inland urban waterfront restoration projects.

4. Joint Venture

A joint venture is an entity resulting from a contractual arrangement; it is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. In such an arrangement, the participants retain an ongoing financial interest or an ongoing financial responsibility in the entity. These entities are not part of the primary government or a component unit.

The State participates in a joint venture called the *Capitol Area Development Authority (CADA)*. CADA was created in 1978 by the joint exercise of powers agreement between the primary government and the City of Sacramento for the location of state buildings and other improvements. CADA is a public entity, separate from the primary government and the city, and is administered by a board of five members: two appointed by the primary government, two appointed by the city, and one appointed by the affirmative vote of at least three of the other four members of the board. The primary government designates the chairperson of the board. Although the primary government does not have an equity interest in CADA, it does have an ongoing financial interest. Based upon the appointment authority, the primary government has the ability to indirectly influence CADA to undertake special projects for the citizenry of the participants. The primary government subsidizes CADA's operations by leasing land to CADA without consideration; however, the primary government is not obligated to do so. At June 30, 2009, CADA had total assets of $33.0 million, total liabilities of $19.3 million, and total net assets of $13.7 million. Total revenues for the fiscal year were $10.8 million and expenses were $9.0 million, resulting in a change in net assets of $1.8 million. Because the primary government does not have an equity interest in CADA, CADA's financial information is not included in the financial statements of this report. Separately issued financial statements may be obtained from the Capitol Area Development Authority, 1522 14th Street, Sacramento, California 95814-5958.

5. Related Organizations

A related organization is an organization for which a primary government is accountable because that government appoints a voting majority of the organization's governing board, but for which it is not financially accountable.

Chapter 854 of the Statutes of 1996 created an *Independent System Operator*, a state-chartered, nonprofit market institution. The Independent System Operator provides centralized control of the statewide electrical transmission grid to ensure the efficient use and reliable operation of the transmission system. A five-member oversight board, comprised of three appointees of the Governor, an appointee of the Senate Committee on Rules, and an appointee of the Speaker of the Assembly, oversees the Independent System Operator. In addition, the Governor appoints the five members of a separate governing board. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. Because the primary government is not financially accountable for the Independent System Operator, the financial information of this institution is not included in the financial statements of this report. For information on how to obtain copies of the financial statements of the Independent System Operator, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, CA 94250-5872.

The *California Earthquake Authority (CEA)*, a legally separate organization, offers basic earthquake insurance for California homeowners, renters, condominium owners, and mobile home owners. A three-member board of state-elected officials governs the CEA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CEA, the financial information of this institution is not included in the financial statements of this report. For information on how to obtain copies of the financial statements of the CEA, contact the California Earthquake Authority, 801 K Street, Suite 1000, Sacramento, CA 95814.

The *Bay Area Toll Authority (BATA)*, which is not part of the State's reporting entity, was created by the California Legislature in 1997 to administer a portion of the toll revenues collected from the San Francisco Bay Area's seven state-owned toll bridges and to have program oversight related to certain bridge construction projects. In 2005, the California Legislature transferred toll-bridge administration responsibility from the California Department of Transportation (Caltrans) to BATA. This responsibility includes consolidation of all toll-bridge revenue under BATA's administration. BATA is a blended component unit of the Metropolitan Transportation Commission. Additional information may be obtained from the Metropolitan Transportation Commission, 101 Eighth Street, Oakland, California 94607.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (the Statement of Net Assets and the Statement of Activities) give information on all the nonfiduciary activities of the primary government and its component units. The primary government is reported separately from legally separate component units for which the State is financially accountable. Within the primary government, the State's governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The effect of interfund activity has been removed from the statements, with the exception of amounts between governmental and business-type activities, which are presented as internal balances and transfers. Centralized services provided by the General Fund for other funds are charged as direct costs to the funds that received those services. Also, the General Fund recovers the cost of centralized services provided to federal programs from the federal government.

The Statement of Net Assets reports all of the financial and capital resources of the government as a whole in a format where assets equal liabilities plus net assets. The statement of activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items that are not program-related are reported as general revenues.

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The State maintains the minimum number of funds consistent with legal and managerial requirements. Fiduciary funds, although excluded from the government-wide statements, are included in the fund financial statements. Major governmental and enterprise funds are reported in separate columns in the fund financial statements. Nonmajor governmental and proprietary funds are grouped into separate columns. Discretely presented component unit statements, which follow the fiduciary fund statements, also separately report the enterprise activity of the major discretely presented component units. In this report, the enterprise activity of nonmajor discretely presented component units is grouped in a separate column.

Governmental fund types are used primarily to account for services provided to the general public without direct charge.

The State reports the following major governmental funds.

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

The *Federal Fund* accounts for the receipt and use of grants, entitlements, and shared revenues received from the federal government.

The *Transportation Fund* accounts for fuel taxes, including the State's diesel, motor vehicle, and fuel use taxes; bond proceeds; automobile registration fees; and other revenues that are used for transportation purposes, including highway and passenger rail construction and transportation safety programs.

Proprietary fund types focus on the determination of operating income, changes in net assets, financial position, and cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For its proprietary funds, the State applies all applicable GASB pronouncements. In addition, the State applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Committee on Accounting Procedure (CAP) Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The State has elected not to apply FASB pronouncements issued after November 30, 1989, for its enterprise funds.

The State has two proprietary fund types: enterprise funds and internal service funds.

Enterprise funds record business-type activity for which a fee is charged to external users for goods and services. In addition, the State is required to report activities as enterprise funds in the context of the activity's principal revenue sources when any of the following criteria are met:

- The activity's debt is secured solely by fees and charges of the activity;
- There is a legal requirement to recover costs; or
- The pricing policies of fees and charges are designed to recover costs.

The State reports the following major enterprise funds.

The *Electric Power Fund* accounts for the acquisition and resale of electric power to retail end-use customers.

The *Water Resources Fund* accounts for charges to local water districts and the sale of excess power to public utilities.

The *Public Building Construction Fund* accounts for rental charges from the lease of public assets.

The *State Lottery Fund* accounts for the sale of California State Lottery (Lottery) tickets and the Lottery's payments for education.

The *Unemployment Programs Fund* accounts for employer and worker contributions used for payments of unemployment insurance and disability benefits.

Nonmajor enterprise funds account for additional operations that are financed and operated in a manner similar to private business enterprises.

Additionally, the State reports *internal service funds* as a proprietary fund type with governmental activity. Internal service funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis. The goods and services provided include: architectural services, construction and improvements, printing and procurement services, goods produced by inmates of state prisons, data processing services, and administrative services related to water delivery. Internal service funds are included in the governmental activities at the government-wide level.

Fiduciary fund types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds, including fiduciary component units, are not included in the government-wide financial statements.

The State has the following four fiduciary fund types.

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension or investment trust funds, whereby principal and income benefit individuals, private organizations, or other governments. The following are the State's largest private purpose trust funds.

The *Scholarshare Program Trust Fund* accounts for money received from participants to fund their beneficiaries' higher-education expenses at certain postsecondary educational institutions.

The *Unclaimed Property Fund* accounts for unclaimed money and properties held in trust by the State. Unclaimed property is remitted to the General Fund where it can be used by the State until it is claimed.

Pension and other employee benefit trust funds of the primary government and fiduciary component units account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems and for other employee benefit programs.

An *investment trust fund* accounts for the deposits, withdrawals, and earnings of the Local Agency Investment Fund, an external investment pool for local governments and public agencies.

Agency funds account for assets held by the State, which acts as an agent for individuals, private organizations, or other governments. The following are the State's largest agency funds.

The *Receipting and Disbursing Fund* accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from numerous state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The *Deposit Fund* accounts for various deposits held in trust by state departments.

The *Departmental Trust Fund* accounts for various deposits held in trust by state departments.

Discretely presented component units consist of certain organizations that have enterprise activity. The enterprise activity component units are the University of California, the State Compensation Insurance Fund, the California Housing Finance Agency, the Public Employees' Benefits Fund, and nonmajor component units. In this report, all of the enterprise activity of the discretely presented component units is reported in a separate column in the government-wide financial statements and on separate pages following the fund financial statements.

C. Measurement Focus and Basis of Accounting

1. Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they are earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar transactions are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2. Fund Financial Statements

The measurement focus and basis of accounting for the fund financial statements vary with the type of fund. **Governmental fund types** are presented using the current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unreserved fund balance is a measure of available spendable resources.

The accounts of the governmental fund types are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. The State records revenue sources when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months. Principal tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments.

Proprietary fund types, the **investment trust fund**, **private purpose trust funds**, and **pension and other employee benefit trust funds** are accounted for using the economic resources measurement focus. **Agency funds** are custodial in nature and do not measure the results of operations.

The accounts of the proprietary fund types, the investment trust fund, private purpose trust funds, pension and other employee benefit trust funds, and agency funds are reported using the accrual basis of accounting. Under the accrual basis, most transactions are recorded when they occur, regardless of when cash is received or disbursed.

Lottery revenue and the related prize expenses are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the Statement of Cash Flows, all cash and pooled investments in the State Treasurer's pooled investment program are considered to be cash and cash equivalents.

Discretely presented component units are accounted for using the economic resources measurement focus and the accrual basis of accounting.

D. Inventories

Inventories of supplies are reported at cost and inventories held for resale are stated at the lower of average cost or market. In the government-wide financial statements, inventories for both governmental and business-type activities are expensed when they are consumed and unused inventories are reported as an asset on the Statement of Net Assets. In the fund financial statements, governmental funds report inventories as expenditures when purchased, and proprietary funds report inventories as expenditures when consumed. The discretely presented component units have inventory policies similar to those of the primary government.

E. Deposits and Investments

The State reports investments at fair value, as prescribed by GAAP. Additional information on the State's investments can be found in Note 3, Deposits and Investments.

F. Net Investment in Direct Financing Leases

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. The payments from these leases are used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the cost of projects such as acquisition and construction of facilities and equipment. Upon expiration of these leases, title to the facilities and projects transfers to the primary government agency, the University of California, or the local agency. The State Public Works Board records the net investment in direct financing leases at the net present value of the minimum lease payments.

The California State University (CSU), an agency that accounts for its lease activities in the State University Dormitory Building Maintenance and Equipment Fund, a nonmajor enterprise fund, has entered into 30-year capital lease agreements with certain of its auxiliary organizations that are accounted for as a nonmajor discretely presented component unit. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

G. Deferred Charges

The deferred charges account in the enterprise funds primarily represents operating and maintenance costs and unrecovered capital costs that will be recognized in the Water Resources Fund as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as deferred charges. These charges are recognized when billed in future years under the terms of water supply contracts. The deferred charges for the Public Buildings Construction Fund include bond counsel fees, trustee fees, rating agency fees, underwriting costs, insurance costs, and miscellaneous expenses. Bond issuance costs are amortized using the straight-line method over the term of the bonds. Amortization of bond issue costs during the facility construction period is capitalized and included in the construction costs. Deferred charges are also included in the State Lottery Fund and nonmajor enterprise funds. Bond issuance costs recorded as expenditures in certain capital projects and special revenue funds are reclassified as deferred charges in the governmental activities column of the Statement of Net Assets and are amortized over the life of the bonds.

H. Capital Assets

Capital assets are categorized into land, state highway infrastructure, collections, buildings and other depreciable property, and construction in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, personal property, intangible assets, certain infrastructure assets, certain books, and other capitalized and depreciable property. The value of the capital assets, including the related accumulated depreciation, is reported in the applicable governmental, business-type, or component unit activities columns in the government-wide Statement of Net Assets.

The primary government has a large collection of historical and contemporary treasures that have important documentary and artistic value. These assets are not capitalized or depreciated because they are cultural resources and cannot reasonably be valued and/or the assets have inexhaustible useful lives. These treasures and works of art include furnishings, portraits and other paintings, books, statues, photographs, and miscellaneous artifacts. These collections meet the conditions for exemption from capitalization because the collections are: held for public exhibition, education, or research in furtherance of public service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

In general, capital assets of the primary government are defined as assets that have a normal useful life of at least one year and a unit acquisition cost of at least $5,000. These assets are recorded at historical cost or estimated historical cost, including all costs related to the acquisition. Donated capital assets are recorded at the fair market value on the date the gift was received. Major capital asset outlays are capitalized as projects are constructed.

Buildings and other depreciable property are depreciated using the straight-line method with no salvage value for governmental activities. Generally, buildings and other improvements are depreciated over 40 years and equipment is depreciated over five years. Depreciable assets of business-type activities are depreciated using the straight-line method over their estimated useful or service lives, ranging from three to 100 years.

California has elected to use the modified approach for capitalizing the infrastructure assets of the state highway system. The state highway system consists of 49,477 lane-miles and 12,266 bridges that are maintained by the California Department of Transportation. By using the modified approach, the infrastructure assets of the state highway system are not depreciated and all expenditures made for those assets, except for additions and improvements, are expensed in the period incurred. All additions and improvements made after June 30, 2001, are capitalized. All infrastructure assets that are related to projects completed prior to July 1, 2001, are recorded at the historical costs contained in annual reports of the American Association of State Highway and Transportation Officials (AASHTO) and the Federal Highway Administration.

The capital assets of the discretely presented component units are reported at cost at the date of acquisition or at fair market value at the date of donation, in the case of gifts. They are depreciated over their estimated useful service lives.

I. Long-term Obligations

Long-term obligations consist of certain unmatured general obligation bonds, certain unmatured revenue bonds, capital lease obligations, certificates of participation, commercial paper, the net pension obligation of the pension and other employee benefit trust funds, the net other postemployment benefits obligation, the liability for employees' compensated absences and workers' compensation claims, pollution remediation obligations, amounts owed for lawsuits, reimbursement for costs mandated by the State, the outstanding Proposition 98 funding guarantee owed to schools, the liability for Lottery prizes and annuities, and the primary government's share of the University of California pension liability that is due in more than one year. In the government-wide financial statements, current and noncurrent obligations are reported as liabilities in the applicable governmental activities, business-type activities, and component units columns of the Statement of Net Assets.

Pollution remediation obligations are recorded by the State when one or more of the GASB Statement No. 49 obligating events have occurred and when a reasonable estimate of the remediation cost is available. These liabilities are measured using actual contract costs, where no change in cost is expected, or the expected cash flow technique. The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

Bond premiums, discounts, and loss on refundings for business-type activities and component units are generally deferred and amortized over the life of the bonds. In these instances, bonds payable are reported net of the applicable premium, discount, or loss. Bond premiums and discounts for governmental activities are reported as other financing sources (uses) in the fund financial statements. However, in the government-wide financial statements, the bonds payable for governmental activities is reported net of the applicable unamortized premium, discount and loss on refunding.

With approval in advance from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds, building authorities, and agencies. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of certain special revenue funds (Transportation and the Golden State Tobacco Securitization Corporation) and the building authorities' capital projects funds, the liability for revenue bonds is recorded in the respective fund.

J. Compensated Absences

The government-wide financial statements report both the current and the noncurrent liabilities for compensated absences, which are vested unpaid vacation, annual leave, and other paid leave programs. However, unused sick-leave balances are not included in the compensated absences because they do not vest to employees. In the fund financial statements for governmental funds, only the compensated absences for employees that have left state service and have unused reimbursable leave at year-end would be included. The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued in proprietary funds when incurred. In the discretely presented component units, the compensated absences are accounted for in the same manner as in the proprietary funds of the primary government.

K. Net Assets and Fund Balance

The difference between fund assets and liabilities is called "net assets" on the government-wide financial statements, the proprietary and fiduciary fund statements, and the component unit statements; it is called "fund balance" on the governmental fund statements. The government-wide financial statements have the following categories of net assets.

Investment in capital assets, net of related debt, represents capital assets, net of accumulated depreciation, reduced by the outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result from transactions with purpose restrictions and are designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted net assets* are subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted net assets* are subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2009, the government-wide financial statements show restricted net assets for the primary government of $12.2 billion, of which $1.8 billion is due to enabling legislation.

Unrestricted net assets are neither restricted nor invested in capital assets, net of related debt.

In the fund financial statements, proprietary funds have categories of net assets similar to those in the government-wide statements. Governmental funds have two fund balance sections: *reserved and unreserved*. Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balances that are segregated for specific uses. The reserves of the fund balance for governmental funds are as follows.

Reserved for encumbrances represents goods and services that are ordered, but not received, by the end of the fiscal year.

Reserved for interfund receivables represents the noncurrent portion of advances to other funds that do not represent expendable available financial resources.

Reserved for loans receivable represents the noncurrent portion of loans receivable that does not represent expendable available financial resources.

Reserved for continuing appropriations represents the unencumbered balance of all appropriations for which the period of availability extends beyond the period covered in the report. These appropriations are legally segregated for a specific future use.

Reserved for debt service represents the amount legally reserved for the payment of bonded indebtedness that is not available for other purposes until the bonded indebtedness is liquidated.

The *unreserved* amounts represent the net of total fund balance, less reserves.

Fiduciary fund net assets are amounts held in trust for benefits and other purposes.

L. Restatement of Beginning Fund Balances and Net Assets

1. Fund Financial Statements

The beginning fund balance of the **governmental funds** increased by $14 million. The net increase is composed of a $1 million decrease in the Transportation Fund, a **major governmental fund**, and a $15 million increase in three **nonmajor governmental funds**. The decrease in the Transportation Fund and $1 million of the increase in **nonmajor governmental funds** was the result of the reclassification of a small fund to the Transportation Fund. The remaining net $14 million increase to **nonmajor governmental funds** comprises a $16 million increase as a result of an error in prior year federal revenue and a $2 million decrease to correct trial court accounting system errors.

The beginning net assets of the **enterprise funds** decreased by $443 million as a result of removing the carrying value of certain toll bridges from other nonmajor enterprise funds to governmental activities where they will be reported as state highway infrastructure.

The beginning net assets of the **pension and other employee benefit trust funds** decreased by $146 thousand as a result of the reclassification of the Replacement Benefit Custodial Fund to an agency fund.

The beginning net assets of the **discretely presented component units – enterprise activity** decreased by $33 million for pollution remediation obligations added when the University of California implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.*

2. Government-wide Financial Statements

The beginning net assets of the **governmental activities** decreased by $1.8 billion. In addition to the amounts described in the previous section for governmental funds, the decrease is primarily the result of a $1.2 billion decrease related to various capital asset adjustments. The $1.2 billion decrease to capital assets comprises a $1.9 billion decrease to remove capitalized expenditures for state highway infrastructure and related assets that are actually preservation costs under the modified approach for capitalizing infrastructure assets; a $533 million increase to include state highway infrastructure previously reported in an enterprise fund; a $368 million increase to correct errors in prior year accumulated depreciation; a $140 million decrease to remove the assets of the California State University (CSU), Channel Island Site Authority which was reclassified from a blended component unit to a discretely presented component unit; and a $46 million decrease for other adjustments to assets for various CSU campuses. In addition, beginning net assets decreased by $626 million for pollution remediation obligations added as a result of implementing GASB Statement No. 49.

The beginning net assets of the **component units** were restated as described in the previous section for discretely presented component units - enterprise activity.

M. Guaranty Deposits

The State is custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

NOTE 2: BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

The State's annual budget is prepared primarily on a modified accrual basis for governmental funds. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues; however, revenues are not included in the annual budget bill adopted by the Legislature. Under state law, the State cannot adopt a spending plan that exceeds estimated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations and establish the legal level of control for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders of the Governor. Amendments to the original budget for the year ended June 30, 2009, were legally made, and they had the effect of decreased spending for the General Fund and increased spending for the Transportation Fund.

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely, while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period in which the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

B. Legal Compliance

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall appropriation control and does not allow expenditures in excess of authorized appropriations.

Financial activities are mainly controlled at the appropriation level but can vary, depending on the presentation and wording contained in the Budget Act. The Budget Act appropriations are identified by department, reference item, and fund. The annual appropriated budget may establish detailed allocations to specific programs, projects, or sources of reimbursement within an appropriation. The Department of Finance can authorize adjustments between the detail allocations but cannot increase the amount of the overall appropriation. While the financial activities are controlled at various levels, the legal level of budgetary control—the extent to which management may amend the budget without seeking approval of the governing body—has been established in the Budget Act for the annual operating budget.

NOTE 3: DEPOSITS AND INVESTMENTS

The State Treasurer administers a single pooled investment program comprising both an internal investment pool and an external investment pool (the Local Agency Investment Fund). A single portfolio of investments exists, with all participants having an undivided interest in the portfolio. Both pools are administered in the same manner, as described below.

As required by generally accepted accounting principles, certain risk disclosures are included in this note to the extent that the risks exist at the date of the statement of net assets. Disclosure of the following risks is included:

Interest Rate Risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with longer time to maturity tend to be more sensitive to changes in interest rates than those with shorter durations.

Credit Risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

Custodial Credit Risk is the risk that, in the event a financial institution or counterparty fails, the investor will not be able to recover the value of deposits, investments, or collateral.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

A. Primary Government

The State's pooled investment program and certain funds of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to invest in United States government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, other debt securities, repurchase agreements, reverse repurchase agreements, and other investments.

Certain discretely presented component units participate in the State Treasurer's Office pooled investment program. As of June 30, 2009, the discretely presented component units accounted for approximately 4.9% of the State Treasurer's pooled investment portfolio. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs.

Both deposits and investments are included in the State's investment program. For certain banks, the State Treasurer's Office maintains cash deposits that cover uncleared checks deposited in the State's accounts and that earn income which compensates the banks for their services.

Demand and time deposits held by financial institutions as of June 30, 2009, totaling approximately $7.0 billion, were insured by federal depository insurance or by collateral held by the State Treasurer's Office or an agent of the State Treasurer's Office in the State's name. The California Government Code requires that collateral pledged for demand and time deposits be deposited with the State Treasurer. Additionally, $17.5 billion was on deposit with financial institutions in Negotiable Order of Withdrawal (NOW) accounts. These deposits were insured by federal depository insurance.

As of June 30, 2009, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $31 million related to principal and interest payments to bondholders. Additionally, $140 million was on deposit in a NOW account with a custodial agent to provide sufficient earnings to cover fees for custodial services. These deposits were also insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

The State Treasurer's Office reports its investments at fair value. The fair value of securities in the State Treasurer's pooled investment program generally is based on quoted market prices. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio. In addition, the State Treasurer's Office performs a monthly fair market valuation of all securities held against carrying cost. These valuations are posted to the State Treasurer's Office Web site at www.treasurer.ca.gov. As of June 30, 2009, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 214 days. Weighted average maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from evaluation date to stated maturity.

The Pooled Money Investment Board provides oversight of the State Treasurer's pooled investment program. The purpose of the board is to design an effective cash management and investment program, using all monies flowing through the State Treasurer's Office bank accounts and keeping all available funds invested in a manner consistent with the goals of safety, liquidity, and yield. The Pooled Money Investment Board is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. This board designates the amounts of money available for investment. The State Treasurer is charged with making the actual investment transactions for this program. This investment program is not registered with the Securities and Exchange Commission as an investment company.

The value of the deposits in the State Treasurer’s pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2009, this difference was immaterial to the valuation of the program. The pool is run with “dollar-in, dollar-out” participation. There are no share-value adjustments to reflect changes in fair value.

Certain funds have elected to participate in the pooled investment program even though they have the authority to make their own investments. Others may be required by legislation to participate in the program; as a result, the deposits of these funds or accounts may be considered involuntary. However, these funds or accounts are part of the State’s reporting entity. The remaining participation in the pool, the Local Agency Investment Fund, is voluntary.

Certain funds that have deposits in the State Treasurer’s pooled investment program do not receive the interest earnings on their deposits. Instead, by law, the earnings are to be assigned to the State’s General Fund. Most of the $112 million in interest revenue received by the General Fund from the pooled investment program in the 2008-09 fiscal year was earned on balances in these funds.

The State Treasurer’s pooled investment program values participants’ shares on an amortized cost basis. Specifically, the program distributes income to participants quarterly, based on their relative participation during the quarter. This participation is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This amortized cost method differs from the fair value method used to value investments in these financial statements; the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair value of the pool’s investments. Because the total difference between the fair value of the investments in the pool and the value distributed to pool participants using the amortized cost method described above is not material, no adjustment was made to the financial statements.

The State Treasurer’s Office also reports participant fair value as a ratio of amortized cost on a quarterly basis. The State Treasurer’s Office has not provided or obtained a legally binding guarantee to support the principal invested in the investment program.

As of June 30, 2009, structured notes and asset-backed securities comprised approximately 14.7% of the pooled investments. A significant portion of the structured notes consisted of federal agency floating-rate debentures. For the federal agency and corporate floating-rate securities held in the portfolio during the fiscal year, the interest received by the State Treasurer’s pooled investment program rose or fell as the underlying index rate rose or fell. The portion representing the asset-backed securities consists of mortgage backed securities, Small Business Administration (SBA) pools, and asset-backed commercial paper. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs), and are securities backed by pools of mortgages. The REMICs in the State’s portfolio have a fixed principal payment schedule. A lesser portion of the asset-backed securities consisted of floating-rate SBA notes. For floating-rate SBA notes held in the portfolio during the fiscal year, the interest received by the State Treasurer’s pooled investment program rose or fell as the underlying index rate rose or fell. The structure of the floating-rate notes in the State Treasurer’s pooled investment program portfolio provided a hedge against the risk of increasing interest rates. A portion of the asset-backed portfolio holdings was short-term, asset-backed commercial paper (ABCP), which represented 1.5% of pooled investments.

Enterprise funds and special revenue funds also make separate investments, which are presented at fair value.

Table 1 identifies the investment types that are authorized by the California Government Code and the State Treasurer's Office investment policy for the pooled investment program.

Table 1

Authorized Investments

Authorized Investment Type	Maximum Maturity[1]	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating
U.S. Treasury Securities	5 years	N/A	N/A	N/A
Federal Agency Securities	5 years	N/A	N/A	N/A
Certificates of Deposit	5 years	N/A	N/A	N/A
Bankers Acceptances	180 days	N/A	N/A	N/A
Commercial Paper	180 days	30%	10% of issuer's outstanding Commercial Paper	A-2/P-2/F-2[2]
Corporate Bonds/Notes	5 years	N/A	N/A	A-/A3/A-[3]
Repurchase Agreements	1 year	N/A	N/A	N/A
Reverse Repurchase Agreements	1 year	10%[1]	N/A	N/A

[1] Limitations are pursuant to the State Treasurer's Office Investment Policy for the Pooled Money Investment Account. The Government Code does not establish limits for investments of surplus monies in this investment type, except for commercial paper.

[2] The State Treasurer's Office Investment Policy for the Pooled Money Investment Account is more restrictive than the Government Code, which allows investments rated A-3/P-3/F-3.

[3] The Government Code requires that a security fall within the top three ratings of a nationally recognized rating service.

N/A Neither the Government Code nor the State Treasure's Office Investment Policy for the Pooled Money Investment Account sets limits for the investment of surplus monies in this investment type.

1. Interest Rate Risk

Table 2 presents the interest rate risk of the primary government's investments.

Table 2

Schedule of Investments – Primary Government – Interest Rate Risk
June 30, 2009
(amounts in thousands)

	Interest Rates[1]	Maturity	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments				
U.S. Treasury bills and notes	0.16 - 2.17	2 days - 2.96 years	$ 13,445,606	0.73
U.S. agency bonds and discount notes	0.14 - 5.04	6 days - 1.84 years	8,545,832	0.44
Supranational debentures (IBRD)	1.32	2.82 years	301,325	2.82
Small Business Administration loans	0.55 - 1.38	0.25 year	538,418	0.25 [2]
Mortgage-backed securities [3]	3.92 - 14.25	16 days - 6.13 years	1,029,718	2.29
Certificates of deposit	0.24 - 1.15	1 day - 92 days	4,575,024	0.14
Commercial paper	0.27 - 0.75	1 day - 92 days	2,113,698	0.15
Corporate bonds and notes	0.88 - 5.22	42 days - 1.21 years	303,393	0.71
Total pooled investments			**30,853,014** [4]	
Other primary government investments				
U.S. Treasuries and agencies			2,528,834	3.29
Commercial paper			144,298	N/A [5]
Guaranteed investment contracts			254,338	13.70
Corporate debt securities			619,803	1.88
Other			592,502	2.34
Total other primary government investments [6]			**4,139,775**	
Funds outside primary government included in pooled investments				
Less: investment trust funds			25,251,903	
Less: other trust and agency funds			2,826,804	
Less: discretely presented component units			2,516,212	
Total primary government investments			**$ 4,397,870**	

1 These numbers represent high and low interest rates for each investment type.
2 In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes stated maturity is the quarterly reset date.
3 These securities are issued by U.S. government agencies such as the Government National Mortgage Association.
4 Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include $5.6 billion of time deposits and $14.4 billion of internal loans to State funds which are reported as cash in the respective funds.
5 These commercial paper holdings of the Golden State Tobacco Securitization Corporation mature in less than one year.
6 Total other primary government investments include approximately $17 million of cash equivalents that are included in cash and pooled investments.

Table 3 identifies the debt securities that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided previously).

Table 3

Schedule of Highly Sensitive Investments in Debt Securities – Primary Government – Interest Rate Risk
June 30, 2009
(amounts in thousands)

Pooled investments	**Fair Value at Year End**	**% of Total Pooled Investments**
Mortgage-backed		
Federal National Mortgage Association Collateralized Mortgage Obligations	$ 1,029,578	3.337 %
Government National Mortgage Association Pools	140	0.000

These mortgage-backed securities entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage securities are sensitive to interest rate changes because principal prepayments either increase (in a low interest rate environment) or decrease (in a high interest rate environment). A change, up or down, in the payment rate will result in a change in the security yield.

2. Credit Risk

Table 4 presents the credit risk of the primary government's debt securities.

Table 4

Schedule of Investments in Debt Securities – Primary Government – Credit Risk
June 30, 2009
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
Pooled investments[1]		
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 12,560,872
A-1/P-1/F-1	AA/Aa/AA	2,969,488
A-2/P-2/F-2	A/A/A	308,912
Not rated		1,029,578
Not applicable		13,984,164
Total pooled investments		**$ 30,853,014** [2]
Other primary government investments		
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 1,682,675
A-1/P-1/F-1	AA/Aa/AA	267,597
A-2/P-2/F-2	A/A/A	606,216
A-3/P-3/F-3	BBB/Baa/BBB	32,360
B/NP/B	BB/Ba/BB	148
B/NP/B	B/B/B	157
Not rated		306,317
Not applicable		1,244,305
Total other primary government investments		**$ 4,139,775**

[1] The State Treasurer's Office uses Standard & Poor's, Moody's, and Fitch ratings services. Securities are classified by the lowest rating of the three agencies.

[2] Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include time deposits of $5.6 billion, for which credit risk is mitigated by collateral that the State holds for them—as discussed earlier in this note—and loans to State funds of $14.4 billion, for which external credit risk is not applicable because they are internal loans.

3. Concentration of Credit Risk

The investment policy of the State Treasurer's Office contains no limitations on the amount that can be invested in any one issuer beyond those limitations stipulated in the California Government Code. Table 5 identifies debt securities in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the State Treasurer's investments, or of the separate investments of other primary government funds.

Table 5

Schedule of Investments – Primary Government – Concentration of Credit Risk
June 30, 2009
(amounts in thousands)

POOLED INVESTMENTS

Issuer	Investment Type	Reported Amount	% of Total Pooled Investments
Federal Home Loan Bank	U.S. agency securities	$ 8,345,426	27.05 %

OTHER PRIMARY GOVERNMENT INVESTMENTS

Issuer	Investment Type	Reported Amount	% of Total Agency Investments
Golden State Tobacco Securitization Corporation			
Federal Home Loan Mortgage Corporation	U.S. agency securities	$ 171,984	36.74 %
Federal National Mortgage Association	U.S. agency securities	151,805	32.43
General Electric Company	Commercial paper	93,668	20.01
Metropolitan Life Insurance Company	Commercial paper	50,630	10.82
Department of Water Resources			
Federal Home Loan Mortgage Corporation	U.S. agency securities	$ 51,780	56.16 %
Federal National Mortgage Association	U.S. agency securities	23,697	25.70

4. Custodial Credit Risk

The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral. As of June 30, 2009, $6 million in deposits of the Electric Power Fund were uninsured and uncollateralized.

B. Fiduciary Funds

The fiduciary funds include pension and other employee benefit trust funds of the following fiduciary funds and component units: the California Public Employees' Retirement System (CalPERS), the California State Teachers' Retirement System (CalSTRS), the fund for the California Scholarshare program, and various other funds. CalPERS and CalSTRS account for 97% of these separately invested funds.

CalPERS and CalSTRS exercise their authority under the State Constitution and invest in stocks, bonds, mortgages, real estate, and other investments.

CalPERS reports investments in securities at fair value, generally based on published market prices and quotations from pricing vendors. Many factors are considered in arriving at fair value. Real estate investments, held either directly, in separate accounts, or as a limited partnership in a commingled fund, are subject to independent third-party appraisals. Short-term investments are reported at market value, when available, or, when market value is not available, at cost plus accrued interest, which approximates market value. For investments where no readily ascertainable market value exists, management, in consultation with its investment advisors, determines the fair values for the individual investments.

Under the State Constitution and statutory provisions governing CalPERS' investment authority, CalPERS, through its outside investment managers, holds investments in futures and options and enters into forward foreign currency exchange contracts. CalPERS held for investment purposes futures and options with a fair value of approximately negative $119 million as of June 30, 2009. Gains and losses on futures and options are determined based upon quoted market values and recorded in the statement of changes in fiduciary net assets.

Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that investment securities values will change in the near term; such changes could materially affect the amounts reported in the financial statements.

CalPERS uses forward foreign currency exchange contracts primarily to hedge against changes in exchange rates related to foreign securities. As of June 30, 2009, CalPERS had an approximately negative $120 million net exposure to loss from forward foreign currency exchange transactions related to the approximately $46.0 billion international debt and equity portfolios. CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. CalPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts.

CalSTRS also reports investments at fair value, generally based on published market prices and quotations from pricing vendors for securities. Real estate equity investment fair values are based on either recent estimates provided by CalSTRS' contract real estate advisors or by independent appraisers. Short-term investments are reported at cost or amortized cost, which approximates fair value. Fair value for commingled funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers. Alternative investments represent interests in private equity partnerships that CalSTRS enters into under a limited partnership agreement. For alternative investments and other investments for which no readily ascertainable market value exists, CalSTRS management, in consultation with its investment advisors, has determined the fair value for the individual investments. Purchases and sales are recorded on the trade date.

The State Constitution, state statutes, and board policies permit CalPERS and CalSTRS to lend their securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Third-party securities lending agents are under contract to lend domestic and international equity and debt securities. For both CalPERS and CalSTRS, collateral, in the form of cash or other securities, is required at 102% and 105% of the fair value of domestic and international securities loaned, respectively. CalPERS' management believes that CalPERS has minimized its credit risk exposure by requiring the borrowers to provide collateral greater than 100% of the market value of the securities loaned. The securities loaned are priced daily. Securities on loan can be recalled on demand by CalPERS and loans of securities may be terminated by CalPERS or the borrower.

For CalPERS, as of June 30, 2009, the market value of the cash collateral reinvestment pool is lower than the cash collateral liability. The re-invested cash collateral is reported as securities lending collateral on the statement of fiduciary net assets and is being reported at fair value at June 30, 2009. During the fiscal year, CalPERS and borrowers maintained the right to terminate all securities lending transactions on demand. The loans were terminable at will and their duration did not generally match the duration of the investments made with the cash collateral. At June 30, 2009, the weighted duration difference between the cash collateral investments and loans was 18 days.

For CalSTRS, collateral received on each security loan was placed in investments that, at June 30, 2009, had a 23-day difference in weighted average maturity between the investments and loans. Most of CalSTRS' security loans can be terminated on demand by CalSTRS or the borrower. CalSTRS is not permitted to pledge or sell collateral securities received unless the borrower defaults. The contracts with the security lending agents require them to indemnify CalSTRS if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrowers fail to pay CalSTRS for income distributions by the securities' issuers while the securities are on loan.

Table 6 presents the investments of the fiduciary funds by investment type.

Table 6

Schedule of Investments - Fiduciary Funds
June 30, 2009
(amounts in thousands)

Investment Type	Fair Value
Equity securities	$ 143,821,033
Debt securities*	92,267,917
Investment contracts	1,345,361
Mutual funds	6,569,255
Real estate	26,019,447
Inflation linked	4,372,977
Insurance contracts	257,234
Private equity	36,964,311
Securities lending collateral	47,337,352
Other	1,128,123
Total investments	**$ 360,083,010**

* Debt securities include short-term investments not included in cash and pooled investments.

1. Interest Rate Risk

CalPERS and CalSTRS manage the interest rate risk inherent in their investment portfolios by measuring the effective or option-adjusted duration of the portfolio. In using the duration method, these agencies may make assumptions regarding the timing of cash flows or other factors that affect interest rate risk information. The CalPERS investment policies require the option-adjusted duration of the total fixed-income portfolio to stay within 20% of the option-adjusted duration of its benchmark (Barclay's Long Liability Index). All individual portfolios are required to maintain a specific level of risk relative to their benchmark. Risk exposures are monitored daily. The CalSTRS investment guidelines allow the core long-term investment grade portfolios the discretion to deviate within plus or minus 20% (0.80 to 1.20) of the average effective duration of the relevant Barclay's Capital benchmark. The permissible range of deviation for the average effective duration within the high yield portfolios is negotiated with each of the high yield managers and detailed in the investment guidelines. The CalSTRS investment guidelines state that the average maturity of the portfolio shall be managed such that it will not exceed 180 days.

Table 7 presents the interest rate risk of the fixed-income securities of these fiduciary funds.

Table 7

Schedule of Investments in Fixed-Income Securities - Fiduciary Funds - Interest Rate Risk
June 30, 2009
(amounts in thousands)

	Fair Value at Year End	Effective Duration (in years)[1]	
California Public Employees' Retirement Fund [2]			
U.S. Treasuries and agencies	$ 9,444,878	11.39	
Mortgages	16,360,991	5.11	
Corporate	17,352,961	7.11	
Asset-backed	19,077,008	1.68	
Private placement	64,407	5.28	
International	4,979,200	7.39	
Commingled	15,664	2.86	
Commercial paper	28,113	6.19	
State Street Bank pool investment	199,366	3.00	
Special purpose entities	1,701,833	0.10	
Bank-sponsored structured investment vehicle	1,049,231	0.04	
Floating rate collateralized mortgage-backed security	950,263	1.37	
Mutual funds	225,040	1.37	
No effective duration	6,617,870	N/A	
Total	**$ 78,066,825**		
Deferred Compensation Plan Fund			
Investment contracts	$ 1,345,361	2.46	
Scholarshare Program Trust Fund			
Insurance contracts	$ 257,234	1.23	
California State Teachers' Retirement System			
Long-term fixed-income investments			
U.S. Government and agency obligations	$ 5,601,435	4.44	
Corporate	5,305,720	5.80	
High yield	2,169,182	3.52	
Debt core plus	2,760,775	4.15	
Structured products	498,064	2.74	
Commercial mortgage-backed securities	644,188	3.92	
Mortgage-backed securities	8,639,526	2.96	
Total	**$ 25,618,890**		
	0-30 days	**31-90 days**	**91-120 days**
Short-term fixed-income investments			
Money market securities	$ 1,644,144	$ 85,000	$ 9,974
Corporate floating-rate notes	48,686	126,827	—
U.S. Government and agency obligations			
Noncallables	40,095	8,011	—
Discount notes	104,325	146,943	20,979
Callable	21,970	39,088	5,005
Municipals	31,768	—	—
U.S. Treasury	149,982	—	—
Asset-backed securities	93,697	12,263	—
Total	**$ 2,134,667**	**$ 418,132**	**$ 35,958**

[1] Effective duration is described in the paragraph preceding this table.

[2] Includes investments of fiduciary funds and certain discretely presented component units that CalPERS administers.

121-180 days	181-365 days	366+ days	Fair Value at Year End
$ 29,973	$ —	$ —	$ 1,769,091
—	—	—	175,513
15,080	95,102	10,009	168,297
74,894	127,894	—	475,035
32,034	30,095	—	128,192
—	—	—	31,768
24,968	134,536	10,232	319,718
—	—	—	105,960
$ 176,949	**$ 387,627**	**$ 20,241**	**$ 3,173,574**

2. Credit Risk

The CalPERS investment policies require that 80% of the total fixed-income portfolio be invested in investment-grade securities. Investment-grade securities are those fixed-income securities with a Moody's rating of AAA to BAA or a Standard and Poor's rating of AAA to BBB. Each portfolio is required to maintain a specified risk level. Portfolio exposures are monitored daily. The CalSTRS investment guidelines require that, at the time of purchase, at least 95% of the corporate securities comprising the credit portion of the core fixed-income portfolio be rated Baa3/BBB-/BBB- or better by two out of the three nationally recognized statistical rating organizations (NRSROs), such as Moody's Investors Service, Inc, Standard and Poor's Rating Service, or Fitch Ratings. The rating used to determine the quality of the individual securities will be the highest of the ratings supplied by two NRSROs. Furthermore, the total position of the outstanding debt of any one private mortgage-backed and asset-backed securities issuer shall be limited to 10% of the market value of the portfolio. Obligations of other issuers are held to a 5% per issuer limit (at the time of purchase) of the market value of any individual portfolio. The investment guidelines also include an allocation to opportunistic strategies, a portion of which are managed externally and allow for the purchase of bonds rated below investment grade. Limitations on the amount of debt of any one issuer a manager may hold are negotiated on a manager-by-manager basis.

Table 8 presents the credit risk of the fixed-income securities of these fiduciary funds.

Table 8

Schedule of Investments in Fixed-Income Securities – Fiduciary Funds – Credit Risk
June 30, 2009
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 57,167,156
A-1/P-1/F-1	AA/Aa/AA	9,666,738
A-2/P-2/F-2	A/A/A	16,244,352
A-3/P-3/F-3	BBB/Baa/BBB	10,424,108
B/NP/B	BB/Ba/BB	3,262,182
B/NP/B	B/B/B	1,770,026
C/NP/C	CCC/Caa/CCC	598,598
C/NP/C	CC/Ca/CC	145,722
C/NP/C	C/C/C	12,301
D/NP/D	D/D/D	67,552
Not rated		17,519,042
Not applicable		19,734,758
Total fixed-income securities		**$ 136,612,535**

3. Concentration of Credit Risk

The Deferred Compensation Plan Fund held $1.3 billion in investment contracts of Dwight Asset-Management Company; this amount represented 21.8% of the fund's total investments as of June 30, 2009. The Scholarshare Program Trust Fund held $257 million in investment contracts of TIAA-CREF Life Insurance Company; this amount represented 8.6% of the fund's total investments as of June 30, 2009.

CalPERS and CalSTRS did not have investments in a single issuer that represented 5% or more of total fair value of all investments.

4. Custodial Credit Risk

CalPERS and CalSTRS have policies or practices to minimize custodial risk, and their investments at June 30, 2009, were not exposed to custodial risk.

5. Foreign Currency Risk

At June 30, 2009, CalPERS and CalSTRS held $49.0 billion and $22.9 billion, respectively, in investments subject to foreign currency risk. CalPERS' asset allocation and investment policies allow for active and passive investments in international securities. CalPERS' target allocation is to have 40% of total global equity assets invested in international equities and 8.5% of total fixed-income invested in international securities. Real estate and alternative investments do not have a target allocation for international investment. CalPERS uses a currency overlay program to reduce risk by hedging approximately 25% of the developed market international equity portfolio. Its currency exposures are monitored daily. CalSTRS believes that its Currency Management Program should emphasize the protection of the value of its non-dollar public and private equity assets against a strengthening U.S. dollar first, yet recognizes that opportunities also exist for alpha generation (the ability to derive a return in excess of a market return) within the currency markets. CalSTRS' fixed-income staff has management responsibilities for the Currency Management Program. The hedging range has been designed to allow for some degree of symmetry around the unhedged program benchmark in order to enable the Currency Management Program to both protect the translation value of the assets against a strengthening U.S. dollar and to enhance returns in a declining U.S. dollar environment. As a result, the hedging range is - 25% to 50% of the total market value of the non-dollar public and private equity portfolios.

Table 9 identifies the investments of the fiduciary funds that are subject to foreign currency risk.

Table 9

Schedule of Investments - Fiduciary Funds - Foreign Currency Risk
June 30, 2009
(amounts in thousands of U.S. dollars at fair value)

Currency	Cash	Equity	Alternative	Fixed Income	Real Estate	Currency Overlay	Total
Argentine Peso	$ 33	$ —	$ —	$ —	$ —	$ —	$ 33
Australian Dollar	29,016	3,101,515	40,572	214,170	14,799	(3,191)	3,396,881
Brazilian Real	15,978	1,686,032	—	6,016	—	27,730	1,735,756
British Pound Sterling	80,670	9,044,714	4,319	332,474	124,818	(6,910)	9,580,085
Canadian Dollar	36,176	4,097,083	157,725	26,046	1,580	11,330	4,329,940
Chilean Peso	2,133	124,878	—	—	—	—	127,011
Chinese Yuan	—	7,117	—	—	—	9,322	16,439
Columbian Peso	89	34,506	—	1,464	—	—	36,059
Czech Koruna	1,798	97,135	—	—	—	(218)	98,715
Danish Krone	992	469,244	371	102,964	—	40	573,611
Egyptian Pound	503	122,237	—	—	—	—	122,740
Euro	92,601	18,565,565	1,520,151	2,009,758	16,228	174,764	22,379,067
Hong Kong Dollar	49,847	3,779,396	—	—	29,758	67	3,859,068
Hungarian Forint	6,150	73,579	—	18,340	—	—	98,069
Indian Rupee	9,404	814,534	—	—	—	3,353	827,291
Indonesian Rupiah	943	320,233	—	—	—	(3,014)	318,162
Israeli Shekel	4,257	311,137	975	1	—	(1,603)	314,767
Japanese Yen	146,709	10,116,287	935,055	1,178,129	31,493	(5,163)	12,402,510
Malaysian Ringgit	7,113	305,114	—	—	—	1,714	313,941
Mexican Peso	9,288	563,530	—	48,084	—	2,516	623,418
Moroccan Dirham	456	19,849	—	—	—	—	20,305
New Russian Ruble	—	2,566	—	—	—	2,793	5,359
New Zealand Dollar	1,885	62,362	—	4,853	2,235	—	71,335
Norwegian Krone	6,473	423,587	—	1,119	—	21,906	453,085
Pakistan Rupee	193	24,439	—	—	—	—	24,632
Papua New Guinean Kina	—	505	—	—	—	—	505
Peruvian Nouveau Sol	1,380	13,595	—	—	—	—	14,975
Philippine Peso	2,636	38,432	—	—	—	—	41,068
Polish Zloty	1,190	96,239	—	66,293	—	—	163,722
Singapore Dollar	9,248	745,949	—	—	34,042	1,466	790,705
South African Rand	73,202	1,157,703	—	—	—	12,171	1,243,076
South Korean Won	38,217	1,687,533	—	—	—	7,125	1,732,875
Sri Lanka Rupee	3	—	—	—	—	—	3
Swedish Krona	10,194	1,104,388	—	67,715	—	5,000	1,187,297
Swiss Franc	12,252	3,088,047	182	—	7,351	2,107	3,109,939
Taiwan Dollar	33,264	1,357,582	—	—	—	5,490	1,396,336
Thailand Baht	7,089	237,303	—	—	—	(1,383)	243,009
Turkish New Lira	10,742	488,154	—	—	—	309	499,205
Total investments subject to foreign currency risk	**$ 702,124**	**$ 64,182,069**	**$ 2,659,350**	**$ 4,077,426**	**$ 262,304**	**$ 267,721**	**$ 72,150,994**

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California and its foundations, the State Compensation Insurance Fund (SCIF), the California Housing Finance Agency (CalHFA), the Public Employees' Benefits Fund administered by CalPERS, and various funds that constitute less than 3% of the total investments of discretely presented component units. State law, bond resolutions, and investment policy resolutions allow component units to invest in U.S. government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, real estate, and other investments. Additionally, a portion of the cash and pooled investments of SCIF, CalHFA, and other component units is invested in the State Treasurer's pooled investment program.

The investments of the University of California, a discretely presented component unit, are primarily stated at fair value. Investments authorized by the regents include equity securities, fixed-income securities, and certain other asset classes. The equity portion of the investment portfolio includes domestic and foreign common and preferred stocks, which may be included in actively or passively managed strategies, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-outs, and international funds. The fixed-income portion of the investment portfolio may include both domestic and foreign securities, as well as certain securitized investments including mortgage-backed and asset-backed securities. Absolute return strategies, incorporating short sales, plus derivative positions to implement or hedge an investment position, are also authorized. Where donor agreements have placed constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

The University of California participates in a securities lending program as a means to augment income. Campus foundations' cash, cash equivalents, and investments that are invested with the University of California and managed by the university's treasurer are included in the university's investment pools that participate in a securities lending program. The campus foundations' allocated share of the program's cash collateral received, investment of cash collateral, and collateral held for securities lending is determined based upon the foundations' equity in the investment pools. The Board of Trustees for each campus foundation may also authorize participation in a direct securities lending program. The university loans securities to selected brokerage firms and receives collateral that equals or exceeds the fair value of such investments during the period of the loan. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Collateral securities cannot be pledged or sold by the university unless the borrower defaults. Loans of domestic equities and all fixed-income securities are initially collateralized at 102% of the fair value of the securities loaned. Loans of foreign equities are initially collateralized at 105%. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100% of the fair value of the securities loaned. The university earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and it is obligated to pay a fee and a rebate to the borrower. The university receives the net investment income. As of June 30, 2009, the university had little exposure to borrowers because the amounts that it owed the borrowers were substantially the same as the amounts the borrowers owed the university. The university is fully indemnified by its lending agents against any losses incurred as a result of borrower default.

Securities loans immediately terminate upon notice by either the university or the borrower. Cash collateral is invested by the university's lending agents in short-term investment pools in the university's name, with guidelines approved by the university. As of June 30, 2009, the securities in these pools had a weighted average maturity of 37 days.

The State Department of Insurance permits SCIF to lend a certain portion of its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. A third-party lending agent has been contracted to lend U.S. Treasury notes and bonds. Collateral, in the form of cash and other securities, is adjusted daily and is required at all times to equal at least 100% of the fair value of securities loaned. Collateral securities received cannot be pledged or sold unless the borrower defaults. The maximum loan term is one year. In accordance with SCIF's investment guidelines, cash collateral is invested in short-term investments, with maturities matching the related loans. Interest income on these investments is shared by the borrower, the third-party lending agent, and SCIF. As of December 31, 2008, there were no loaned securities.

Table 10 presents the investments of the discretely presented component units by investment type.

Table 10

Schedule of Investments – Discretely Presented Component Units
June 30, 2009
(amounts in thousands)

Investment Type	Fair Value
Equity securities	$ 3,634,181
Debt securities*	30,088,083
Investment contracts	251,818
Mutual funds	4,333,202
Real estate	471,358
Money market securities	538,188
Private equity	721,229
Mortgage loans	767,571
Externally held irrevocable trusts	175,264
Securities lending collateral	2,379,923
Invested for others	(1,167,774)
Other	1,387,805
Total investments	**$ 43,580,848**

* Debt securities include short-term investments not included in cash and pooled investments.

1. Interest Rate Risk

Interest rate risk for the University of California's short-term investment pool is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio, as it is managed relative to the liquidity demands of the investors. Portfolio guidelines for the fixed-income portion of the university's general endowment pool limit weighted average effective duration to the effective duration of the Lehman Aggregate Index, plus or minus 20%.

SCIF guidelines provide that 15% or more of its total assets shall be maintained in cash or in securities maturing in five years or less. For information about CalPERS' policies related to interest rate risk, refer to Section B, Fiduciary Funds.

Table 11 presents the interest rate risk of the fixed-income or variable-income securities of the major discretely presented component units.

Table 11

Schedule of Investments in Fixed-Income or Variable-Income Securities - Discretely Presented Component Units - Interest Rate Risk

June 30, 2009

(amounts in thousands)

	University of California		University of California Foundations	
Investment Type	**Fair Value at Year End**	**Effective Duration (in years)**	**Fair Value at Year End**	**Effective Duration (in years)**
U.S. Treasury bills, notes, and bonds	$ 1,113,945	2.00	$ 99,449	4.20
U.S. Treasury strips	69,125	9.10	—	—
U.S. TIPS	272,345	4.10	—	—
U.S. government-backed securities	3,331	6.00	3,267	3.90
U.S. government-backed asset-backed securities	—	—	266	3.90
Corporate bonds	4,053,628	3.00	76,231	3.60
Commercial paper	1,283,124	0.00	—	—
U.S. agencies	839,915	2.00	9,730	4.00
U.S. agencies asset-backed securities	199,159	2.80	62,373	2.10
Corporate asset-backed securities	217,404	7.00	9,808	0.50
Supranational/foreign	793,404	7.10	676	5.00
Government/Sovereign (foreign currency denominated)	126,096	6.70	—	—
Corporate (foreign currency denominated)	3,627	4.10	—	—
U.S. bond funds	42,106	4.30	205,569	5.10
Non-U.S. bond funds	—	—	32,289	2.80
Money market funds	54,323	0.00	409,199	1.60
Mortgage loans	754,266	0.00	13,305	5.20
Other	55	5.40	1,753	4.10
Total	**$ 9,825,853**		**$ 923,915**	

	State Compensation Insurance Fund		California Housing Finance Agency	
Investment Type	**Fair Value at Year End**	**Weighted Average Maturity (in years)**	**Fair Value at Year End**	**Effective Duration (in years)**
U.S. Treasury and agency securities	$ 3,667,348	4.31	$ 245,693	11.71
Municipal securities	391,666	9.32	—	—
Public utilities	457,094	6.93	—	—
Corporate bonds	5,111,292	4.39	—	—
Special revenue	1,205,448	10.43	—	—
Mortgage-backed securities	8,090,991	24.26	—	—
Mutual funds	206,136	0.04	—	—
Total	**$ 19,129,975**		**$ 245,693**	

Table 12 identifies the debt securities that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided previously) because of the existence of prepayment or conversion features, although the effective duration of these securities may be low.

Table 12

Schedule of Highly Sensitive Investments in Debt Securities – University of California and its Foundations – Interest Rate Risk
June 30, 2009
(amounts in thousands)

	University of California		University of California Foundations	
	Fair Value at Year End	Effective Duration (in years)	Fair Value at Year End	Effective Duration (in years)
Mortgage-Backed Securities These securities are primarily issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.	$ 471,171	4.50	$ 56,339	2.00
Collateralized Mortgage Obligations Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the underlying mortgages are subject to a lower propensity of prepayments.	11,251	1.70	5,592	2.00
Other Asset-Backed Securities Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.	7,187	1.10	7,871	0.50
Variable-Rate Securities These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable-rate securities may have limits on how high or low the interest may change. These constraints may affect the market value of the security.	389,792	0.10	—	—
Callable Bonds Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The university must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.	795,288	2.40	420	8.60

2. Credit Risk

The investment guidelines for the University of California's short-term investment pool provide that no more than 5% of the total market value of the pool's portfolio may be invested in securities rated below investment grade (BB, Ba, or lower). The average credit quality of the pool must be A or better and commercial paper must be rated at least A-1, P-1, or F-1. For its general endowment pool, the university uses a fixed-income benchmark, the Barclays Capital Aggregate Index, comprising approximately 30% high grade corporate bonds and 30% to 35% mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 35% to 40% are government-issued bonds. Credit risk in this pool is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10% of the market value of fixed-income securities may be invested in issues with credit ratings below investment grade. Further, the weighted average credit rating must be A or higher.

SCIF investment guidelines provide that securities issued and/or guaranteed by the government of Canada and its political subdivisions must be rated Aa3/AA- or better by two nationally recognized rating services. Securities issued and/or guaranteed by a state or its political subdivision must be rated A3/A- or better by a nationally recognized rating service. Securities issued by a qualifying corporation and purchased prior to May 9, 2008, must be rated A3/A- or better by a nationally recognized rating service.

Table 13 presents the credit risk of the fixed-income or variable-income securities of the major discretely presented component units.

Table 13

Schedule of Investments in Fixed-Income or Variable-Income Securities – Major Discretely Presented Component Units – Credit Risk

June 30, 2009

(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
A-1+	AAA	$ 13,892,217
A-1/P-1	AA2/AA	3,705,258
A-2	A2/A	7,218,007
A-3	BAA2/BBB	1,816,242
B	BA2/BB	186,215
B	B2/B	126,691
CCC	CCC	76,572
Not rated		1,530,372
Total fixed-income securities		**$ 28,551,574**

3. Concentration of Credit Risk

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed-income portion of the University of California's portfolio include a limit of no more than 3% of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the university's short-term investment pool. Each campus foundation may have its own individual investment policy designed to limit exposure to a concentration of credit risk. The University of California did not have investments in a single issuer that represented 5% or more of total fair value of all investments as of June 30, 2009.

4. Custodial Credit Risk

The University of California's securities are registered in the university's name by the custodial bank as an agent for the university. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote. Some of the investments of certain University of California campus foundations are exposed to custodial credit risk. These investments may be uninsured or not registered in the name of the campus foundation and held by a custodian.

Table 14 presents the investments of the major discretely presented component units subject to custodial credit risk.

Table 14

Schedule of Investments – University of California Foundations – Custodial Credit Risk
June 30, 2009
(amounts in thousands)

	Fair Value
Investment Type	
Domestic equity securities	$ 53,477
Foreign equity securities	855
U.S. Treasury bills, notes, and bonds	61,717
U.S. agencies	6,010
Other	1,562
Total investments subject to custodial credit risk	**$ 123,621**

5. Foreign Currency Risk

The University of California's portfolio guidelines for U.S. investment-grade fixed-income securities allow exposure to non-U.S. dollar denominated bonds up to 10% of the total portfolio market value. Exposure to foreign currency risk from these securities may be fully or partially hedged using forward foreign currency exchange contracts. Under the university's investment policies, such instruments are not permitted for speculative use or to create leverage.

Table 15 identifies the investments of the University of California – including its campus foundations – that are subject to foreign currency risk.

Table 15

Schedule of Investments – University of California – Foreign Currency Risk

June 30, 2009

(amounts in thousands of U.S. dollars at fair value)

Currency	Equity	Real Estate	Fixed-Income	Total
Australian Dollar	$ 63,212	$ —	$ 750	$ 63,962
British Pound Sterling	206,714	—	9,576	216,290
Canadian Dollar	82,375	—	2,852	85,227
Danish Krone	9,165	—	1,005	10,170
Euro	347,171	—	63,598	410,769
Hong Kong Dollar	41,006	1,716	—	42,722
Japanese Yen	232,946	1,505	48,038	282,489
Malaysian Ringgit	—	—	591	591
New Zealand Dollar	841	—	—	841
Norwegian Krone	8,295	—	323	8,618
Polish Zloty	—	—	926	926
Singapore Dollar	16,847	—	468	17,315
South African Rand	1,649	—	—	1,649
South Korean Won	2,342	—	—	2,342
Swedish Krona	20,125	—	768	20,893
Swiss Franc	85,725	—	828	86,553
Thailand Baht	747	—	—	747
Other	11,262	3,031	—	14,293
Commingled currencies	859,826	—	25,485	885,311
Total investments subject to foreign currency risk	**$ 1,990,248**	**$ 6,252**	**$ 155,208**	**$ 2,151,708**

NOTE 4: ACCOUNTS RECEIVABLE

Table 16 presents the disaggregation of accounts receivable attributable to taxes, interest expense reimbursements, Lottery retailer collections, and unemployment program receipts. Other receivables are for interest, gifts, grants, various fees, penalties, and other charges. The adjustment for the fiduciary funds represents amounts due from fiduciary funds that were reclassified as external receivables on the government-wide Statement of Net Assets.

Table 16

Schedule of Accounts Receivable
June 30, 2009
(amounts in thousands)

	Taxes	Reimbursement of Accrued Interest Expense	Lottery Retailers	Unemployment Programs	Other	Total
Current governmental activities						
General Fund	$ 9,001,669	$ —	$ —	$ —	$ 946,623	$ 9,948,292
Federal Fund	—	—	—	—	1,181	1,181
Transportation Fund	298,055	—	—	—	264,898	562,953
Nonmajor governmental funds	66,795	28	—	—	1,075,649	1,142,472
Internal service funds	—	—	—	—	97,105	97,105
Adjustment:						
Fiduciary funds	—	—	—	—	27,197	27,197
Total current governmental activities	**$ 9,366,519**	**$ 28**	**$ ––**	**$ ––**	**$ 2,412,653**	**$ 11,779,200**
Amounts not scheduled for collection during the subsequent year	**$ 1,471,522**	**$ ––**	**$ ––**	**$ ––**	**$ 340,478**	**$ 1,812,000**
Current business-type activities						
Water Resources Fund	$ —	$ —	$ —	$ —	$ 75,447	$ 75,447
Public Building Construction Fund	—	47,574	—	—	—	47,574
State Lottery Fund	—	—	194,427	—	—	194,427
Unemployment Programs Fund	—	—	—	207,501	—	207,501
Nonmajor enterprise funds	—	—	—	—	84,358	84,358
Adjustment:						
Account reclassification	—	(47,574)	—	—	(98,603)	(146,177)
Total current business-type activities	**$ ––**	**$ ––**	**$ 194,427**	**$ 207,501**	**$ 61,202**	**$ 463,130**
Amounts not scheduled for collection during the subsequent year	**$ ––**	**$ ––**	**$ ––**	**$ 47,071**	**$ ––**	**$ 47,071**

NOTE 5: RESTRICTED ASSETS

Table 17 presents a summary of the legal restrictions placed on assets in the enterprise funds of the primary government and the discretely presented component units.

Table 17

Schedule of Restricted Assets
June 30, 2009
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,354,344	$ 384,715	$ 58,788	$ 395,029	$ 2,192,876
Construction	39,125	—	—	—	39,125
Operations	1,510,533	—	—	—	1,510,533
Other	5,168	26,961	—	—	32,129
Total primary government	**2,909,170**	**411,676**	**58,788**	**395,029**	**3,774,663**
Discretely presented component units					
Debt service	171,918	79,951	—	—	251,869
Total discretely presented component units	**171,918**	**79,951**	**––**	**––**	**251,869**
Total restricted assets	**$ 3,081,088**	**$ 491,627**	**$ 58,788**	**$ 395,029**	**$ 4,026,532**

NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board.

The California State University (CSU), an agency that accounts for its lease activities in the State University Dormitory Building Maintenance and Equipment Fund, a nonmajor enterprise fund, has entered into 30-year capital lease agreements with certain of its auxiliary organizations that are accounted for as a nonmajor discretely presented component unit. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

Table 18 summarizes the minimum lease payments to be received by the primary government.

Table 18

Schedule of Minimum Lease Payments to be Received by the Primary Government
(amounts in thousands)

Year Ending June 30	Primary Government Agencies	University of California	Nonmajor Component Unit	Local Agencies	Total
2010	$ 484,752	$ 189,242	$ 23,493	$ 70,030	$ 767,517
2011	458,568	192,143	23,667	68,700	743,078
2012	448,402	192,252	24,076	64,641	729,371
2013	438,227	192,133	27,663	63,671	721,694
2014	438,418	191,935	28,975	63,776	723,104
2015-2019	2,045,131	796,132	207,437	214,937	3,263,637
2020-2024	1,267,387	644,533	119,495	64,282	2,095,697
2025-2029	866,653	443,845	119,457	63,317	1,493,272
2030-2034	223,482	184,332	93,786	26,382	527,982
2035-2039	—	—	31,959	—	31,959
2040-2044	—	—	22,465	—	22,465
2045-2049	—	—	4,494	—	4,494
Total minimum lease payments	**6,671,020**	**3,026,547**	**726,967**	**699,736**	**11,124,270**
Less: unearned income	2,390,236	1,076,544	325,969	191,709	3,984,458
Net investment in direct financing leases	**$ 4,280,784**	**$ 1,950,003**	**$ 400,998**	**$ 508,027**	**$ 7,139,812**

NOTE 7: CAPITAL ASSETS

Table 19 summarizes the capital activity for the primary government, which includes $6.2 billion in capital assets related to capital leases.

Table 19

Schedule of Changes in Capital Assets – Primary Government
June 30, 2009
(amounts in thousands)

	Beginning Balance (Restated)	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 16,043,103	$ 313,653	$ 1,967	$ 16,354,789
State highway infrastructure	57,916,204	1,272,175	—	59,188,379
Collections	21,631 *	1,985	37	23,579
Construction in progress	7,024,461	2,772,308	2,391,020	7,405,749
Total capital assets not being depreciated	**81,005,399**	**4,360,121**	**2,393,024**	**82,972,496**
Capital assets being depreciated				
Buildings and improvements	17,100,177	923,206	216,047	17,807,336
Infrastructure	610,405	111,330	—	721,735
Equipment and other assets	4,330,719	393,289	222,163	4,501,845
Total capital assets being depreciated	**22,041,301**	**1,427,825**	**438,210**	**23,030,916**
Less accumulated depreciation for:				
Buildings and improvements	5,525,135	466,791	113,965	5,877,961
Infrastructure	191,551	36,639	—	228,190
Equipment and other assets	3,159,738	359,070	214,852	3,303,956
Total accumulated depreciation	**8,876,424**	**862,500**	**328,817**	**9,410,107**
Total capital assets being depreciated, net	**13,164,877**	**565,325**	**109,393**	**13,620,809**
Governmental activities, capital assets, net	**$ 94,170,276**	**$ 4,925,446**	**$ 2,502,417**	**$ 96,593,305**
Business-type activities				
Capital assets not being depreciated				
Land	$ 47,489	$ 2,197	$ —	$ 49,686
Collections	29 *	—	—	29
Construction in progress	1,876,245 *	495,232	389,822	1,981,655
Total capital assets not being depreciated	**1,923,763**	**497,429**	**389,822**	**2,031,370**
Capital assets being depreciated				
Buildings and improvements	7,436,046	526,834	56,993	7,905,887
Infrastructure	61,367	9,517	—	70,884
Equipment and other assets	112,671 *	9,328	6,816	115,183
Total capital assets being depreciated	**7,610,084**	**545,679**	**63,809**	**8,091,954**
Less accumulated depreciation for:				
Buildings and improvements	3,042,396	169,445	48,136	3,163,705
Infrastructure	15,642	1,811	—	17,453
Equipment and other assets	77,987 *	11,067	6,158	82,896
Total accumulated depreciation	**3,136,025**	**182,323**	**54,294**	**3,264,054**
Total capital assets being depreciated, net	**4,474,059**	**363,356**	**9,515**	**4,827,900**
Business-type activities, capital assets, net	**$ 6,397,822**	**$ 860,785**	**$ 399,337**	**$ 6,859,270**

* Not restated

Table 20 summarizes the depreciation expense charged to the activities of the primary government.

Table 20

Schedule of Depreciation Expense – Primary Government
June 30, 2009
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 76,929
Education	251,251
Health and human services	53,919
Resources	48,647
State and consumer services	41,731
Business and transportation	172,915
Correctional programs	172,510
Internal service funds (charged to the activities that utilize the fund)	44,598
Total governmental activities	**862,500**
Business-type activities	**182,323**
Total primary government	**$ 1,044,823**

Table 21 summarizes the capital activity for discretely presented component units.

Table 21

Schedule of Changes in Capital Assets – Discretely Presented Component Units
June 30, 2009
(amounts in thousands)

	Beginning Balance (Restated)	Additions	Deductions	Ending Balance
Capital assets not being depreciated				
Land	$ 831,366 *	$ 52,424	$ 13,896	$ 869,894
Collections	288,859 *	25,347	1,753	312,453
Construction in progress	3,143,093	32,236	241,754	2,933,575
Total capital assets not being depreciated	**4,263,318**	**110,007**	**257,403**	**4,115,922**
Capital assets being depreciated				
Buildings and improvements	21,420,600	2,476,180	17,733	23,879,047
Equipment and other depreciable assets	8,487,230	720,799	310,269	8,897,760
Infrastructure	529,309	34,963	3,259	561,013
Total capital assets being depreciated	**30,437,139**	**3,231,942**	**331,261**	**33,337,820**
Less accumulated depreciation for:				
Buildings and improvements	7,484,728	718,632	9,165	8,194,195
Equipment and other depreciable assets	5,732,800	573,874	287,801	6,018,873
Infrastructure	207,859	18,701	2,132	224,428
Total accumulated depreciation	**13,425,387**	**1,311,207**	**299,098**	**14,437,496**
Total capital assets being depreciated, net	**17,011,752**	**1,920,735**	**32,163**	**18,900,324**
Capital assets, net	**$ 21,275,070**	**$ 2,030,742**	**$ 289,566**	**$ 23,016,246**

* Not restated

NOTE 8: ACCOUNTS PAYABLE

Accounts payable are amounts due taxpayers, vendors, customers, beneficiaries, and employees related to different programs. Table 22 presents details related to the accounts payable.

The adjustment for the fiduciary funds represents amounts due fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Assets.

Table 22

Schedule of Accounts Payable
June 30, 2009
(amounts in thousands)

	Education	Health and Human Services	Resources	Business and Transportation	General Government and Others	Total
Governmental activities						
General Fund	$ 209,221	$ 708,867	$ 202,139	$ 125	$ 439,064	$ 1,559,416
Federal Fund	194,592	514,647	53,128	217,095	295,042	1,274,504
Transportation Fund	592	23,091	34,628	448,920	23,739	530,970
Nonmajor governmental funds	1,161,562	565,110	408,973	1,396,704	446,625	3,978,974
Internal service funds	—	—	20,481	—	274,912	295,393
Adjustment:						
Fiduciary funds	5,701,673	4,855,724	—	434,040	1,103,226	12,094,663
Total governmental activities	**$ 7,267,640**	**$ 6,667,439**	**$ 719,349**	**$ 2,496,884**	**$ 2,582,608**	**$ 19,733,920**
Business-type activities						
Electric Power Fund	$ —	$ —	$ 264,482	$ —	$ —	$ 264,482
Water Resources Fund	—	—	86,096	—	—	86,096
Public Building Construction Fund	—	—	—	—	33,238	33,238
State Lottery Fund	—	—	—	—	36,274	36,274
Unemployment Program Fund	—	732	—	—	5	737
Nonmajor enterprise funds	79,130	372	18	46,739	945	127,204
Adjustment:						
Fiduciary funds	—	—	—	—	11,342	11,342
Total business-type activities	**$ 79,130**	**$ 1,104**	**$ 350,596**	**$ 46,739**	**$ 81,804**	**$ 559,373**

NOTE 9: SHORT-TERM FINANCING

As part of its cash management program, the State regularly issues short-term obligations to meet cash flow needs. The State issues revenue anticipation notes (RANs) to partially fund timing differences between revenues and expenditures. A significant portion of the General Fund revenues are received in the latter half of the fiscal year, while disbursements are paid more evenly throughout the fiscal year. If additional external cash flow borrowing is required, the State issues revenue anticipation warrants (RAWs). To fund cash flow needs for the 2008-09 fiscal year, the State issued $5.0 billion of RANs on October 23, 2008 and $500 million of RANs on March 23, 2009. The RANs were repaid during the months of May and June 2009.

The California Housing Finance Agency, a discretely presented component unit, entered into an agreement with a financial institution to provide a line of credit for short-term borrowings of up to $100 million, which may increase up to $150 million. At June 30, 2009, draws totaling $34 million were outstanding.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2009, the primary government had long-term obligations totaling $131.2 billion. Of that amount, $5.6 billion is due within one year. The largest change in governmental activities long-term obligations is an increase of $12.2 billion in general obligation bonds payable, as bond sales during the year were much greater than redemptions. General obligation bonds were issued for various purposes, but the largest share of the proceeds will go toward public education facilities and transportation projects. The governmental activities' net other postemployment benefits obligation increased by $2.3 billion this year because the primary government does not fully fund the annual cost of these benefits.

Long-term obligations for governmental activities also increased as a result of implementing GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 requires retroactive implementation for reporting pollution remediation obligations, so the pollution remediation obligations balance as of July 1, 2008 was established at $626 million. As of June 30, 2009, activity during the fiscal year reduced the balance to $605 million. Under federal Superfund law, responsibility for pollution remediation is placed upon current and previous owneres or operators of polluted sites. Currently, the State's most significant superfund site is the Stringfellow Class 1 Hazardous Waste Disposal Facility (Stringfellow) located in Riverside County. As of June 30, 2009, the State estimates remediation costs at Stringfellow will total $276 million. Obligating events have occurred at two other superfund sites that will probably result in significant liability to the State, but the reasonable estimates of the remediation costs cannot be made at this time. In addition to superfund sites, the State's other pollution remediation efforts include underground storage tank removal and cleanup, cleanup of polluted groundwater, and contaminated soil removal and cleanup.

The other long-term obligations for governmental activities consist of $2.2 billion for net pension obligations, $257 million owed for lawsuits, the University of California unfunded pension liability of $57 million, and the Department of Technology Services notes payable of $32 million. The compensated absences will be liquidated by the General Fund, special revenue funds, capital projects funds, and internal service funds. Workers' compensation and capital leases will be liquidated by the General Fund, special revenue funds, and internal service funds. The General Fund will liquidate net pension obligations, the Proposition 98 funding guarantee, lawsuits, reimbursement of costs incurred by local agencies and school districts for costs mandated by the State, and the University of California pension liability.

The largest change in business-type long-term obligations is an increase of $1.9 billion for a loan payable to the U.S. Department of Labor to cover shortfalls in the Unemployment Programs Fund. The $523 million in other long-term obligations for business-type activities is mainly for advance collections.

Table 23 summarizes the changes in the long-term obligations during the year ended June 30, 2009.

Table 23

Schedule of Changes in Long-term Obligations
(amounts in thousands)

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Due Within One Year	Noncurrent Liabilities
Governmental activities						
Loans payable	$ —	$ 199,437	$ —	$ 199,437	$ —	$ 199,437
Compensated absences payable	2,024,801	1,276,363	534,975	2,766,189	118,230	2,647,959
Certificates of participation and commercial paper	1,722,790 *	1,329,100	1,654,535	1,397,355	3,657	1,393,698
Accreted interest	13,299 *	1,227	3,973	10,553	3,454	7,099
Certificates of participation and commercial paper payable	1,736,089	1,330,327	1,658,508	1,407,908	7,111	1,400,797
Capital lease obligations	4,376,410	364,813	285,184	4,456,039	280,632	4,175,407
General obligation bonds	55,507,149 *	15,434,985	3,272,930	67,669,204	2,774,090	64,895,114
Accreted interest	3,132 *	321	—	3,453	—	3,453
Premiums/discounts/other	914,251	124,734	58,135	980,850	71,160	909,690
General obligation bonds payable	56,424,532	15,560,040	3,331,065	68,653,507	2,845,250	65,808,257
Revenue bonds	8,234,590 *	97,635	213,480	8,118,745	166,065	7,952,680
Accreted interest	91,839 *	59,012	—	150,851	—	150,851
Premiums/discounts/other	(514,597)	1,373	(11,483)	(501,741)	(11,914)	(489,827)
Revenue bonds payable	7,811,832	158,020	201,997	7,767,855	154,151	7,613,704
Net other postemployment benefits obligation	2,296,829	3,644,552	1,321,633	4,619,748	—	4,619,748
Pollution remediation obligations	625,974 *	29,055	50,017	605,012	34,896	570,116
Proposition 98 funding guarantee	3,664,600	1,322,049	1,567,600	3,419,049	—	3,419,049
Mandated costs	2,556,264	588,915	27,899	3,117,280	82,850	3,034,430
Workers' compensation	2,550,502	352,279	327,205	2,575,576	298,090	2,277,486
Other long-term obligations	2,425,482	407,033	250,504	2,582,011	61,769	2,520,242
Total governmental activities	**$ 86,493,315**	**$ 25,232,883**	**$ 9,556,587**	**$ 102,169,611**	**$ 3,882,979**	**$ 98,286,632**
Business-type activities						
Benefits payable	$ 8,265	$ —	$ 2,347	$ 5,918	$ 428	$ 5,490
Loans payable	—	1,944,070	—	1,944,070	—	1,944,070
Lottery prizes and annuities	1,730,545	1,712,187	1,878,896	1,563,836	474,094	1,089,742
Compensated absences payable	56,547	35,646	14,275	77,918	36,507	41,411
Certificates of participation and commercial paper	67,204	154,887	170,784	51,307	—	51,307
General obligation bonds	1,908,990	—	204,960	1,704,030	118,190	1,585,840
Premiums/discounts/other	(1,747)	94	—	(1,653)	—	(1,653)
General obligation bonds payable	1,907,243	94	204,960	1,702,377	118,190	1,584,187
Revenue bonds	22,976,860	1,917,457	1,844,844	23,049,473	1,086,399	21,963,074
Premiums/discounts/other	26,237	2,686	25,282	3,641	13,755	(10,114)
Revenue bonds payable	23,003,097	1,920,143	1,870,126	23,053,114	1,100,154	21,952,960
Net other postemployment benefits obligation	54,178	73,053	26,729	100,502	—	100,502
Other long-term obligations	536,475	982	14,578	522,879	6,335	516,544
Total business-type activities	**$ 27,363,554**	**$ 5,841,062**	**$ 4,182,695**	**$ 29,021,921**	**$ 1,735,708**	**$ 27,286,213**

* Restated

NOTE 11: CERTIFICATES OF PARTICIPATION

Table 24 shows debt service requirements for certificates of participation, which are financed by lease payments from governmental activities. The certificates of participation were used to finance the acquisition and construction of a state office building.

Table 24

Schedule of Debt Service Requirements for Certificates of Participation – Primary Government

(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2010	$ 7,203	$ 2,438	$ 9,641
2011	7,109	2,531	9,640
2012	7,117	2,524	9,641
2013	7,030	2,613	9,643
2014	8,140	1,503	9,643
2015-2019	20,480	1,701	22,181
Total	**$ 57,079**	**$ 13,310**	**$ 70,389**

Table 25 shows debt service requirements for certificates of participation for the University of California, a discretely presented component unit.

Table 25

Schedule of Debt Service Requirements for Certificates of Participation – University of California – Discretely Presented Component Unit

(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2010	$ 975	$ 39	$ 1,014
Total	**$ 975**	**$ 39**	**$ 1,014**

NOTE 12: COMMERCIAL PAPER AND OTHER LONG-TERM BORROWINGS

The primary government has two commercial-paper-borrowing programs: a general obligation commercial paper program and an enterprise fund commercial paper program for the Department of Water Resources. Under the general obligation and enterprise fund programs, commercial paper may be issued at the prevailing market rate, not to exceed 11%, for periods not to exceed 270 days from the date of issuance. The proceeds from the initial issuance of commercial paper are restricted primarily for construction costs of general obligation bond program projects and certain state water projects. For both commercial-paper-borrowing programs, the commercial paper is retired by the issuance of long-term debt, so commercial paper is considered a noncurrent liability.

To provide liquidity for the programs, the State has entered into revolving credit agreements with commercial banks. The current agreement for the general obligation commercial paper program, effective February 24, 2009, authorizes the issuance of notes in an aggregate principal amount not to exceed $2.0 billion. The current agreement for the enterprise fund commercial paper program authorizes the issuance of notes in an aggregate principal amount not to exceed $142 million. As of June 30, 2009, the enterprise fund commercial paper program had $10 million in outstanding notes.

During the year ended June 30, 2009, the primary government issued $1.3 billion in original general obligation commercial paper and $1.5 billion in long-term general obligation bonds to retire most of the commercial paper outstanding at June 30, 2008. As of June 30, 2009, the general obligation commercial paper program had $1.4 billion in outstanding commercial paper notes for governmental activities.

The primary government has a revenue bond anticipation note (BAN) program that consists of borrowing for capital improvements on certain California State University campuses. As of June 30, 2009, $41 million in outstanding BANs existed in anticipation of the primary government's issuing revenue bonds to the public.

The University of California has established a $2.0 billion commercial paper program with tax-exempt and taxable components. The program is supported by available investments in the University of California's investment pools. Commercial paper has been issued by the university to provide for interim financing of the construction, renovation, and acquisition of certain facilities and equipment. Commercial paper is secured by a pledge of the net revenues derived from the university's ownership or operation of the projects financed—not by any encumbrance, mortgage, or other pledge of property—and does not constitute a general obligation of the University of California. At June 30, 2009, outstanding tax-exempt and taxable commercial paper totaled $489 million and $177 million, respectively.

The University of California, a discretely presented component unit, has other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. Included in other borrowings, which total $231 million as of June 30, 2009, are various unsecured financing agreements with commercial banks totaling $118 million.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2009, was approximately $7.8 billion. Primary government leases that are classified as operating leases, in accordance with the applicable standards, contain clauses providing for termination. Operating lease expenditures are recognized as being incurred over the lease term. It is expected that, in the normal course of business, most of these operating leases will be replaced by similar leases.

The total present value of minimum capital lease payments for the primary government comprises $7 million from internal service funds and $4.4 billion from other governmental activities. Note 10, Long-term Obligations, reports the additions and deductions of capital lease obligations. Also reported in Note 10 are the current and noncurrent portions of the capital lease obligations. Lease expenditures for the year ended June 30, 2009, amounted to approximately $850 million.

Included in the capital lease commitments are lease-purchase agreements that certain state agencies have entered into with the State Public Works Board, an enterprise fund agency, amounting to a present value of net minimum lease payments of $4.3 billion. This amount represents 96.1% of the total present value of minimum capital lease payments of the primary government. Also included in the capital lease commitments are some lease-purchase agreements to acquire equipment.

The capital lease commitments do not include $480 million of lease-purchase agreements with building authorities that are blended component units. These building authorities acquire or develop office buildings and then lease the facilities to state agencies. Upon expiration of the lease, title passes to the primary government. The costs of the buildings and the related outstanding revenue bonds and certificates of participation are reported in the government-wide financial statements. Accordingly, the lease receivables or capital lease obligations associated with these buildings are not included in the financial statements. Table 26 summarizes future minimum lease commitments of the primary government.

Table 26

Schedule of Future Minimum Lease Commitments – Primary Government
(amounts in thousands)

		Capital Leases		
Year Ending June 30	**Operating Leases**	**Internal Service Funds**	**Other Governmental Activities**	**Total**
2010	$ 256,184	$ 2,046	$ 544,304	$ 802,534
2011	196,155	2,056	499,339	697,550
2012	143,826	2,085	479,339	625,250
2013	89,917	1,320	456,733	547,970
2014	56,329	550	455,700	512,579
2015-2019	123,952	—	2,063,173	2,187,125
2020-2024	18,427	—	1,267,387	1,285,814
2025-2029	1,299	—	866,653	867,952
2030-2034	710	—	223,482	224,192
2035-2039	616	—	—	616
2040-2044	624	—	—	624
2045-2049	408	—	—	408
2050-2054	240	—	—	240
2055-2059	103	—	—	103
2060-2064	35	—	—	35
2065-2069	30	—	—	30
2070-2074	30	—	—	30
2075-2079	30	—	—	30
2080-2084	30	—	—	30
2085-2089	30	—	—	30
2090-2094	30	—	—	30
2095-2099	27	—	—	27
Total minimum lease payments	**$ 889,032**	**8,057**	**6,856,110**	**$ 7,753,199**
Less: amount representing interest		656	2,407,472	
Present value of net minimum lease payments		**$ 7,401**	**$ 4,448,638**	

The aggregate amount of the major discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 2009, was approximately $4.0 billion. Table 27 presents the future minimum lease commitments for the University of California and the State Compensation Insurance Fund. Operating lease expenditures for the year ended June 30, 2009, amounted to approximately $248 million for major discretely presented component units.

Table 27

Schedule of Future Minimum Lease Commitments – Major Discretely Presented Component Units
(amounts in thousands)

Year Ending June 30	University of California Capital	University of California Operating	State Compensation Insurance Fund Operating	Total
2010	$ 254,767	$ 90,617	$ 39,373	$ 384,757
2011	248,254	70,304	28,542	347,100
2012	238,187	51,237	17,978	307,402
2013	228,224	36,519	14,472	279,215
2014	261,662	25,997	9,793	297,452
2015-2019	886,568	48,847	6,844	942,259
2020-2024	725,013	9,426	—	734,439
2025-2029	487,723	3,884	—	491,607
2030-2034	237,091	4,393	—	241,484
2035-2039	—	5,014	—	5,014
2040-2044	—	608	—	608
Total minimum lease payments	**3,567,489**	**$ 346,846**	**$ 117,002**	**$ 4,031,337**
Less: amount representing interest	1,192,581			
Present value of net minimum lease payments	**$ 2,374,908**			

NOTE 14: COMMITMENTS

As of June 30, 2009, the primary government had commitments of $6.3 billion for certain highway construction projects. These commitments are not included as a reserve for encumbrances in the Federal Fund or the Transportation Fund because the future expenditures related to these commitments will be reimbursed with $2.3 billion from local governments and $4.0 billion from proceeds of approved federal grants. The ultimate liability will not accrue to the State. In addition, the primary government had commitments of $754 million for various education programs, $217 million for community service programs, $140 million for services provided under various public health programs, $199 million for terrorism and disaster prevention preparedness and response projects, and $13 million for services provided under the welfare program that are not included as a reserve for encumbrances in the Federal Fund and will be reimbursed by the proceeds of approved federal grants.

The primary government had other commitments, totaling $14.4 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Assets. These commitments included $4.1 billion in long-term contracts to purchase power; these contracts are considered to be derivatives and are not included as a liability on the Statement of Net Assets of the Electric Power Fund. In addition, variable costs, estimated by management at $1.9 billion, are associated with these power purchase contracts. Purchases will take place in the future, and the commitments will be met with future receipts from charges to residential and commercial energy users. Some of these derivatives do not qualify as normal purchases or normal sales. These contracts had a negative fair value of $496 million as of June 30, 2009. Also, the Department of Water Resources entered into bilateral arrangements, with a negative fair value of $28 million, to hedge the price of natural gas. The $14.4 billion in commitments also included grant agreements, totaling approximately $6.7 billion, to reimburse other entities for construction projects for school building aid, parks, transportation related infrastructure, and other improvements, and to reimburse counties and cities for costs associated with various programs. Any constructed assets will not belong to the primary government, whose payments are contingent upon the other entities entering into construction contracts.

In addition to the power purchase contracts and grant commitments, the $14.4 billion in commitments includes contracts of $668 million for the construction of water projects and the purchase of power that are not included as a liability on the Statement of Net Assets of the Water Resources Fund. Included in this amount are certain power purchase, sale, and exchange contracts that are considered to be derivatives. These contracts had a fair value of $204 million as of June 30, 2009. The primary government also had commitments of $648 million for California State University construction projects and $13 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $382 million, of which $318 million is for gaming and telecommunication systems and services and $64 million is for a construction contract. These are long-term projects, and all of the contracts' needs may not have been defined. The projects will be funded with existing and future program resources or with the proceeds of revenue and general obligation bonds.

As of June 30, 2009, the discretely presented component units had other commitments that are not included as liabilities on the Statement of Net Assets. The University of California had authorized construction projects totaling $4.1 billion. The university also made commitments to make investments in certain investment partnerships pursuant to provisions in the partnership agreements. These commitments totaled $429 million as of June 30, 2009. The California Housing Finance Agency had outstanding commitments to provide $46 million for loans under its housing programs. The California Public Employees' Retirement System had capital commitments to private equity funds of $24.0 billion and commitments to purchase real estate equity of $10.0 billion that remained unfunded and not recorded as liabilities on the Statement of Net Assets of either the fiduciary or discretely presented component units.

NOTE 15: GENERAL OBLIGATION BONDS

The State Constitution permits the primary government to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds majority of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education; the General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service it provides on their behalf. General obligation bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included as a liability of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

As of June 30, 2009, the State had $67.7 billion in outstanding general obligation bonds related to governmental activities and $1.7 billion related to business-type activities. In addition, $54.7 billion of general obligation bonds had been authorized but not issued. This amount includes $23.8 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, $1.4 billion in general obligation indebtedness was issued in the form of commercial paper notes but was not yet retired by long-term bonds.

Note 10, Long-term Obligations, discusses the change to general obligation bonds payable.

A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2009, the State had $3.0 billion of variable-rate general obligation bonds outstanding, consisting of $987 million in daily rate, $1.9 billion in weekly rate, and $100 million in auction rate.

The interest rates associated with the daily rates and weekly rates are determined by the remarketing agents to be the lowest rate that would allow the bonds to sell on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest is paid on the first business day of each calendar month. The interest rates on the auction-rate bonds are determined by the auction agent through an auction process and the interest is paid on the business day immediately following each auction rate period.

Letters of credit were issued to secure payment of principal and interest on the daily and weekly variable-rate bonds. Under these letters of credit, the credit providers pay all principal and interest payments to the bondholders; the State is then required to reimburse the credit providers for the amounts paid. Different credit providers exist for each series of variable-rate bonds issued. For the variable-rate bonds issued during the 2002-03 fiscal year, expiration dates of the letters of credit for the daily and weekly variable-rate bonds have been amended to December 1, 2010, December 1, 2011, and December 1, 2012. For the variable-rate bonds issued during the 2004-05 and 2005-06 fiscal years, the initial expiration dates of the letters of credit are October 15, 2012, and November 17, 2010, respectively.

Based on the schedules provided in the Official Statements, sinking fund deposits for the variable-rate general obligation bonds will be set aside in a mandatory sinking fund at the beginning of each of the following fiscal years: the 2015-16 through 2033-34 fiscal years and the 2039-40 fiscal year. The deposits set aside in any fiscal year may be applied, with approval of the State Treasurer and the appropriate bond finance committees, to the redemption of any other general obligation bonds then outstanding. To the extent that the deposit is not applied by January 31 of each fiscal year, the variable-rate general obligation bonds will be redeemed in whole or in part on an interest payment date in that fiscal year.

B. Economic Recovery Bonds

On March 2, 2004, voters approved the one-time issuance of up to $15.0 billion in Economic Recovery Bonds; during the 2003-04 fiscal year, the State sold a total of $10.9 billion of these bonds. In February 2008, the State sold an additional $3.2 billion Economic Recovery Bonds. The debt service for these bonds is payable from and secured by amounts available in the Economic Recovery Bond Sinking Fund, a debt service fund that consists primarily of revenues from a dedicated sales tax. However, the General Fund may be liable for the payment of any principal and interest on the bonds that cannot be paid from the Economic Recovery Bond Sinking Fund.

As of June 30, 2009, the State had $8.6 billion of Economic Recovery Bonds outstanding. Of the $8.6 billion outstanding, bonds totaling $1.1 billion are variable rate bonds, consisting of $500 million in daily rates and $575 million in weekly rates. The interest rates associated with the daily rates and weekly rates are determined by the remarketing agents to be the lowest rates that would enable them to sell the bonds for delivery on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest is paid on the first business day of each calendar month. As described in the Official Statement, payment of principal, interest, and purchase price upon tender, for a portion of these bonds, is secured by a direct-pay letter of credit. Payment of principal and interest for another portion of these bonds is secured by a bond insurance policy, together with an insured standby bond purchase agreement upon tender.

A separate, uninsured standby bond-purchase agreement supports the purchase upon tender for the final portion of these bonds, without credit enhancement in the form of an insurance policy or letter of credit related to the payment of principal or interest. The State reimburses its credit providers for any amounts paid, plus interest. Different credit providers exist for each series of variable-rate bonds issued. The expiration dates for these letters of credit, bond insurance policies, and standby bond purchase agreements fall between June 15, 2010, and December 31, 2015.

C. Mandatory Tender Bonds

Approximately $1.9 billion of the outstanding $8.6 billion in Economic Recovery Bonds have interest-reset dates beginning March 2010. At that time, the bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium. Upon mandatory tender, the State will seek to remarket these bonds. The debt service requirements published in the Official Statement differ from the calculation included in Table 28 because the statement presumes a successful remarketing at an interest rate of 3.32% per year. The debt service calculation in Table 28 uses the interest rates in effect at year-end, which are the same interest rates in effect until the applicable reset date. In the event of a failed remarketing, the State is required to return all tendered bonds to their initial purchasers and pay an annual interest rate of 11% until the bonds are successfully remarketed.

In October 2007, the State issued $250 million in Stem Cell Research and Cures Bonds with an interest reset date of April 1, 2010; in April 2009, the State issued an additional $505 million in Stem Cell Research and Cures Bonds with an interest reset date of April 1, 2013. In four separate sales from February through May 2009, the State issued approximately $537 million in various-purpose general obligation bonds using private placements, with interest reset dates beginning November 1, 2010. On each reset date, these bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount thereof, plus accrued interest, without premium, unless the bonds have been called for redemption on or prior to that date. If the bonds are not redeemed, the interest rate mode for the bonds will be adjusted to a new mode, and the bonds will be remarketed by a remarketing agent appointed by the State. The State has not obtained any credit enhancement with respect to the mandatory tender of these bonds on the first mandatory tender date and does not expect to do so. The debt service calculation in Table 28 uses the interest rates in effect at year-end, which are the same interest rates in effect until the applicable reset dates, and assumes the full redemption of the private placement bonds beginning on April 1, 2029, and full redemption of the Stem Cell Research and Cures Bonds on October 1, 2037, for the bonds sold in 2007 and April 1, 2039, for the bonds sold in 2009. In the event of a failed remarketing, funds for the payment will be provided by the General Fund.

D. Build America Bonds

In March and April 2009, the State issued $5.4 billion in taxable various-purpose general obligation bonds. These bonds and $133 million of mandatory tender bonds issued through private placements discussed above were issued as “Build America Bonds” under the American Recovery and Reinvestment Act of 2009 signed into law on February 17, 2009 (Recovery Act). While most of the bonds mature in 2034 and 2039, two series of mandatory tender bonds, $133 million of the private placement bonds, and $228 million of the $505 million Stem Cell Research and Cures Bonds described above have reset dates of April 1, 2012, and April 1, 2013, respectively. Pursuant to the Recovery Act, the State expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the State on the Build America Bonds on or near each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the United States Treasury under the Recovery Act. Any cash subsidy payments received will be available for use by the General Fund.

E. Debt Service Requirements

Table 28 shows the debt service requirements for all general obligation bonds as of June 30, 2009. The estimated debt service requirements for the $3.0 billion variable-rate general obligation bonds and the $1.1 billion variable-rate Economic Recovery Bonds are calculated using the actual interest rates in effect on June 30, 2009.

Table 28

Schedule of Debt Service Requirements for General Obligation Bonds
(amounts in thousands)

Year Ending	Governmental Activities			Business-type Activities		
June 30	Principal	Interest	Total	Principal	Interest	Total
2010	$ 2,774,090	$ 3,286,759	$ 6,060,849	$ 118,190	$ 81,298	$ 199,488
2011	2,900,532	3,179,284	6,079,816	86,480	73,969	160,449
2012	2,518,865	3,027,770	5,546,635	99,615	69,371	168,986
2013	2,726,940	2,897,008	5,623,948	78,390	65,414	143,804
2014	3,222,540	2,763,037	5,985,577	100,015	61,538	161,553
2015-2019	12,259,380	11,791,811	24,051,191	501,710	231,249	732,959
2020-2024	9,479,410	9,608,622	19,088,032	185,280	146,941	332,221
2025-2029	10,173,200	7,408,376	17,581,576	163,855	109,033	272,888
2030-2034	12,537,610	4,850,479	17,388,089	234,160	57,209	291,369
2035-2039	9,079,090	1,916,447	10,995,537	100,575	18,973	119,548
2040-2044	1,000	6	1,006	35,760	1,745	37,505
Total	**$ 67,672,657**	**$ 50,729,599**	**$ 118,402,256**	**$ 1,704,030**	**$ 916,740**	**$ 2,620,770**

F. General Obligation Bond Defeasances

1. Current Year

The primary government did not issue any refunding bonds in the 2008-09 fiscal year.

2. Prior Years

In prior years, the primary government placed the proceeds of the refunding bonds in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on defeased bonds. The assets of the trust accounts and the liability for defeased bonds are not included in the State's financial statements. As of June 30, 2009, the outstanding balance of general obligation bonds defeased in prior years was approximately $7.0 billion.

NOTE 16: REVENUE BONDS

A. Governmental Activities

The State Treasurer is authorized by state law to issue Federal Highway Grant Anticipation Revenue Vehicles (GARVEE bonds). The purpose of these bonds is to accelerate the funding and construction of critical transportation infrastructure projects in order to provide congestion relief benefits to the public significantly sooner than with traditional funding mechanisms. These bonds are secured and payable from the annual federal appropriation for the State's federal-aid transportation projects. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. Total principal and interest remaining on the bonds is $563 million, payable through 2020. The annual principal and interest payments on these bonds are expected to require approximately 3% of the federal appropriation pledged. Principal and interest paid in the current year and total federal revenue related to transportation projects were $77 million and $2.9 billion, respectively. These bonds fund activity in the Transportation Fund and are included in the governmental activities column of the government-wide Statement of Net Assets.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, is authorized by state law to issue asset-backed bonds to purchase the State's rights to future revenues from the Master Settlement Agreement with participating tobacco companies. These bonds are secured by and payable solely from future Tobacco Settlement Revenue and interest earned on that revenue. The primary government has no legal liability for the payment of principal and interest on these bonds. Total principal and interest remaining on the bonds is $20.9 billion, payable through 2047. The annual principal and interest payments on these bonds are expected to require 89% of the Tobacco Settlement Revenue and interest. Principal and interest paid in the current year and total Tobacco Settlement Revenue and interest were $438 million and $493 million, respectively. These bonds are included in the governmental activities column of the government-wide Statement of Net Assets.

Under state law, certain building authorities may issue revenue bonds. These bonds are issued for the purpose of constructing state office buildings. Leases with state agencies pay the principal and interest on the revenue bonds issued by the building authorities. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. These revenue bonds are included in the governmental activities column of the government-wide Statement of Net Assets.

B. Business-type Activities

Revenue bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included in the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of agencies that issued the bonds. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

Revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance of maturity are issued for water resources, public building construction, financing of electric power purchases for resale to utility customers, and certain nonmajor enterprise funds.

C. Discretely Presented Component Units

The University of California issues revenue bonds to finance various auxiliary, administrative, academic, medical center, and research facilities. The revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property, except pledged revenues, and do not constitute general obligations of the university.

Under state law, the California Housing Finance Agency (CalHFA) issues fixed- and variable-rate revenue bonds to fund loans to qualified borrowers for single-family homes and multifamily rental housing developments. Variable-rate debt is typically related to a common index, such as the Securities Industry and Financial Markets Association (SIFMA) or the London Interbank Offered Rate (LIBOR) and is reset periodically. CalHFA issues both federally taxable and tax-exempt bonds. The bonds issued by CalHFA are payable solely from and collateralized by pledged revenues and other assets.

Table 29 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 29

Schedule of Revenue Bonds Outstanding
June 30, 2009
(amounts in thousands)

Primary government		
Governmental activities		
Transportation Fund	$	500,740
Nonmajor governmental funds		
Golden State Tobacco Securitization Corporation Fund		6,822,180
Building authorities		444,935
Total governmental activities		**7,767,855**
Business-type activities		
Electric Power Fund		9,001,000
Water Resources Fund		2,579,158
Public Building Construction Fund		7,340,199
Nonmajor enterprise funds		4,132,757
Total business-type activities		**23,053,114**
Total primary government		**30,820,969**
Discretely presented component units		
University of California		7,717,089
California Housing Finance Agency		8,243,620
Nonmajor component units		539,461
Total discretely presented component units		**16,500,170**
Total	**$**	**47,321,139**

Table 30 shows the debt service requirements for fixed- and variable-rate bonds. It excludes certain unamortized refunding costs, premiums, discounts, and other costs that are included in Table 29.

Table 30

Schedule of Debt Service Requirements for Revenue Bonds
(amounts in thousands)

Year Ending June 30	Primary Government – Governmental Activities – Principal	Primary Government – Governmental Activities – Interest	Primary Government – Business-type Activities – Principal	Primary Government – Business-type Activities – Interest*	Discretely Presented Component Units – Principal	Discretely Presented Component Units – Interest*
2010	$ 166,065	$ 360,331	$ 1,086,399	$ 919,864	$ 347,705	$ 782,816
2011	169,435	359,937	1,137,231	872,350	400,699	752,933
2012	162,225	351,193	1,188,185	825,781	447,571	728,629
2013	147,715	357,607	1,242,110	774,656	524,302	698,881
2014	157,070	366,356	1,278,605	715,372	480,140	672,511
2015-2019	500,555	1,728,708	6,934,030	2,823,021	2,576,992	2,950,959
2020-2024	426,196	1,651,732	5,527,003	1,689,054	2,777,598	2,264,661
2025-2029	885,950	1,679,624	2,695,790	852,871	2,951,568	1,608,332
2030-2034	697,950	1,345,490	1,355,705	307,799	3,002,422	970,901
2035-2039	1,368,343	1,123,553	501,150	82,286	2,177,640	383,636
2040-2044	—	847,580	98,870	8,585	550,780	73,537
2045-2049	3,588,092	3,648,571	4,395	99	117,365	11,033
Total	**$ 8,269,596**	**$ 13,820,682**	**$ 23,049,473**	**$ 9,871,738**	**$ 16,354,782**	**$ 11,898,829**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2009.

Table 31 shows debt service requirements as of June 30, 2009, for variable-rate debt included in Table 30, as well as net swap payments, assuming that current interest rates remain the same for their terms. As interest rates vary, variable-rate bond interest payments and net swap payments will vary.

Table 31

Schedule of Debt Service and Swap Requirements for Variable-rate Revenue Bonds
(amounts in thousands)

	Primary Government				Discretely Presented Component Units			
	Business-type Activities							
Year Ending June 30	Principal	Interest*	Interest Rate* Swap Net	Total	Principal	Interest*	Interest Rate* Swap Net	Total
2010	$ 80,000	$ 13,000	$ 99,000	$ 192,000	$ 36,485	$ 65,802	$ 163,431	$ 265,718
2011	241,000	13,000	96,000	350,000	54,719	60,431	156,341	271,491
2012................	258,000	12,000	90,000	360,000	75,215	59,756	147,008	281,979
2013	54,000	11,000	86,000	151,000	85,907	58,846	137,249	282,002
2014	221,000	11,000	84,000	316,000	94,244	57,789	128,237	280,270
2015-2019	2,365,000	32,000	266,000	2,663,000	578,502	269,803	521,054	1,369,359
2020-2024	593,000	4,000	39,000	636,000	713,257	230,989	362,456	1,306,702
2025-2029	—	—	—	—	958,037	184,159	247,686	1,389,882
2030-2034	—	—	—	—	1,143,063	108,466	134,601	1,386,130
2035-2039	—	—	—	—	541,645	37,159	45,075	623,879
2040-2044	—	—	—	—	149,186	9,231	14,848	173,265
2045-2049	—	—	—	—	44,390	1,246	3,028	48,664
Total	**$ 3,812,000**	**$ 96,000**	**$ 760,000**	**$ 4,668,000**	**$ 4,474,650**	**$ 1,143,677**	**$ 2,061,014**	**$ 7,679,341**

* Based on rates in effect on June 30, 2009.

D. Primary Government Variable Rate/Swap Disclosure

Objective: The Department of Water Resources (DWR) entered into interest-rate swap agreements with various counterparties to reduce variable-interest-rate risk for the Electric Power Fund. The swaps create a synthetic fixed rate. The DWR agreed to make fixed-rate payments and receive floating-rate payments on notional amounts equal to a portion of the principal amount of this variable-rate debt.

Terms and Fair Value: The terms and fair value of the swap agreements entered into by DWR are summarized in Table 32. Total principal, variable interest, and interest rate swap payments as of June 30, 2009, are $3.8 billion, $96 million, and $760 million, respectively. The notional amounts of the swaps match the principal amounts of the associated debt. The swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled amortization of the associated debt. The fair values were determined based on quoted market prices for similar financial instruments.

Credit Risk: The DWR has a total of 20 swap agreements with 10 different counterparties. Approximately 23% of the total notional value is held with a counterparty that has Moody's Investors Service, Fitch Ratings, and Standard & Poor's (S&P) credit ratings of Aa1, AA, and AA, respectively. Approximately 21% of the total notional value is held with a counterparty that has Moody's, Fitch's, and S&P's credit ratings of Aa1, AA-, and A+, respectively. The remaining swaps are with separate counterparties, all having Moody's, Fitch's, and

S&P's credit ratings of A3, A-, and BBB, respectively, or better. Table 32 summarizes the credit ratings of the counterparties for the swap agreements.

Table 32

Schedule of Terms, Fair Values, and Credit Ratings of Swap Agreements
(amounts in thousands)

Swap Termination Date	Outstanding Notional Amount at June 30, 2009	Fair Values at June 30, 2009	Fixed Rate Paid by Electric Power Fund	Variable Rate Received by Electric Power Fund	Counterparty Credit Ratings (Moody's, Fitch's, S&P's)
5/1/2011	$ 94,000	$ (4,000)	2.914 %	67% of LIBOR	Aaa, AAA, AAA
5/1/2012	234,000	(12,000)	3.024	67% of LIBOR	Aaa, AAA, AAA
5/1/2013	127,000	(5,000)	3.405	SIFMA	Aa1, AA-, AA-
5/1/2013	63,000	(3,000)	3.405	SIFMA	A2, A, A
5/1/2013	19,000	(1,000)	3.405	SIFMA	A2, A+, A
5/1/2014	194,000	(12,000)	3.204	67% of LIBOR	Aa3, A+, A+
5/1/2015	265,000	(15,000)	3.184	66.5% of LIBOR	A3, A-, BBB
5/1/2015	174,000	(12,000)	3.280	67% of LIBOR	Aaa, AAA, AAA
5/1/2016	202,000	(14,000)	3.342	67% of LIBOR	Aa1, AA, AA
5/1/2016	485,000	(32,000)	3.228	66.5% of LIBOR	Aa1, AA, AA
5/1/2017	202,000	(15,000)	3.389	67% of LIBOR	A2, A, A
5/1/2017	480,000	(30,000)	3.282	66.5% of LIBOR	Aa2, AA, AA
5/1/2018	514,000	(31,000)	3.331	66.5% of LIBOR	Aa1, AA-, A+
5/1/2020	306,000	(17,000)	3.256	64% of LIBOR	Aa1, AA-, A+
5/1/2022	453,000	(23,000)	3.325	64% of LIBOR	Aaa, AA, AA-
Total	**$ 3,812,000**	**$ (226,000)**			

Basis Risk: The DWR is exposed to basis risk on the swaps whose payments are calculated on the basis of a percentage of LIBOR. The basis risk results from the fact that the DWR's floating interest payments payable on the underlying debt are determined in the tax-exempt market, while the DWR floating receipts on the swaps are based on LIBOR, which is determined in the taxable market. Should the relationship between LIBOR and the tax-exempt market change and move to convergence, or should the DWR's bonds trade at levels higher in rate in relation to the tax-exempt market, the DWR's cost would increase. The DWR has basis swaps, shown in Table 33, to mitigate this risk and optimize debt service by changing the variable rate received by the Electric Power Fund to a five-year Constant Maturity Swap Index (CMS).

Table 33

Schedule of Terms, Fair Values, and Credit Ratings of Swap Agreements
(amounts in thousands)

Swap Termination Date	Outstanding Notional Amount at June 30, 2009	Fair Values at June 30, 2009	Variable Rate Paid by Electric Power Fund	Variable Rate Received by Electric Power Fund	Counterparty Credit Ratings (Moody's, Fitch's, S&P's)
5/1/2012	$ 234,000	$ 8,000	67% of LIBOR	62.83% of CMS	Aa1, AA, AA
5/1/2014	194,000	8,000	67% of LIBOR	62.70% of CMS	Aa1, AA-, A+
5/1/2015	174,000	7,000	67% of LIBOR	62.60% of CMS	Aa1, AA-, AA-
5/1/2016	202,000	9,000	67% of LIBOR	62.80% of CMS	Aa1, AA, AA
5/1/2017	202,000	9,000	67% of LIBOR	62.66% of CMS	Aa1, AA-, AA-
Total	**$ 1,006,000**	**$ 41,000**			

As of June 30, 2009, 67% of LIBOR paid on the basis swaps was equal to 0.21%, while the variable rates received based on the five-year CMS Index varied was 1.85%.

Termination Risk: The DWR's swap agreements do not contain any out-of-the-ordinary termination provisions that would expose it to significant termination risk. In keeping with market standards, the DWR or the counterparty may terminate a swap agreement if the other party fails to perform under the terms of the contract or significantly loses creditworthiness. At this time, the DWR is not planning to terminate based on the swap having a valuation that would create a liability for DWR. If a termination were to occur, the DWR would, at the time of the termination, be liable for payment equal to the swap's fair value, if it had a negative fair value at that time. A termination would mean that the DWR's underlying floating-rate bonds would no longer be hedged, and the DWR would be exposed to floating rate risk unless it entered into a new hedge.

Rollover Risk: Other than termination, no rollover risk is associated with the swap agreements because the agreements have termination dates and notional amounts that are tied to equivalent maturity dates and principal amounts of amortizing debt.

E. Discretely Presented Component Unit Variable Rate/Swap Disclosure—University of California

Table 31 includes debt service requirements and net swap payments as of June 30, 2009, of the University of California, a discretely presented component unit. Total principal, variable interest, and interest rate net swap payments are $281 million, $76 million, and $225 million, respectively.

Objective: The university entered into interest rate swap agreements in connection with certain variable-rate Medical Center Pooled Revenue Bonds as a means to lower borrowing costs, rather than using fixed-rate bonds at the time of issuance. Under each swap agreement, the university pays the swap counterparties a fixed interest rate payment and receives a variable interest rate payment that effectively changes the variable interest rate bonds to synthetic fixed-rate bonds.

Terms: The notional amount of the swaps matches the principal amounts of the associated bond issuance. The university's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled reductions in the associated bond issuance.

Fair Value: There is a risk that the fair value of a swap will become negative as a result of market conditions. The swaps have an estimated negative fair value of $48 million as of June 30, 2009. The fair value of the interest rate swaps is the estimated amount the university would have either received or (paid) if the swap agreements had been terminated on June 30, 2009. The fair value was estimated by the financial institutions using available quoted market prices or a forecast of expected discounted net future cash flows. The terms and fair value of the swap agreements are summarized in Table 34.

Table 34

Schedule of Terms and Fair Values of Swap Agreements
(amounts in thousands)

Swap Termination Date	Outstanding Notional Amounts at June 30, 2009	Fair Values at June 30, 2009	Fixed Rate Paid by University of California	Variable Rate Received by University of California
05/15/2032	$ 91,215	$ (8,173)	3.5897 %	58% of 1-Month LIBOR + 0.48%
05/15/2047	189,775	(39,931)	4.6873 %	67% of 3-Month LIBOR + 0.73%*
Total	**$ 280,990**	**$ (48,104)**		

* Weighted average spread

Basis Risk: The university is exposed to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the variable receipt rate on the interest rate swaps is taxable. However, there is no basis or tax risk related to the swap with the $190 million notional amount since the variable rate the university pays to the bond holders matches the variable rate payments received from the swap counterparty.

Termination and Credit Risk: The university is exposed to losses in the event of nonperformance by counterparties or unfavorable interest rate movements. The swap contracts with positive fair values are exposed to credit risk. The university faces a maximum possible loss equivalent to the amount of the derivative's fair value. Swaps with negative fair values are not exposed to credit risk. Depending on the agreement, certain swaps may be terminated if the insurer's credit quality rating, as issued by Moody's or Standard & Poor's, fall below certain thresholds, thereby canceling the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. At termination, the university may also owe a termination payment if there is a realized loss based on the fair value of the swap.

F. Discretely Presented Component Unit Variable Rate/Swap Disclosure—California Housing Finance Agency

Table 31 includes debt service requirements and net swap payments as of June 30, 2009, for the California Housing Finance Agency (CalHFA), a discretely presented component unit. Total principal, variable interest, and interest rate net swap payments are $4.2 billion, $1.1 billion, and $1.8 billion, respectively.

Objective: CalHFA has entered into interest rate swap agreements with various counterparties to protect itself against rising rates by providing synthetic fixed rates for a like amount of variable-rate bond obligations. The majority of CalHFA's interest rate swap transactions are structured to pay a fixed rate of interest while receiving a variable rate of interest, with some exceptions. CalHFA previously entered into swaps at a ratio of

65% of LIBOR. Its current formula (60% of LIBOR plus a spread, currently .26%) results in comparable fixed-rate economics but performs better when short-term rates are low and the SIFMA/LIBOR percentage is high. CalHFA has used this new formula since December 2002, and the agency expects to continue to use this formula for LIBOR-based swaps exclusively. In addition, CalHFA entered into eight basis swaps as a means to change the variable-rate formula received from counterparties for $277 million outstanding notional amount from 65% of LIBOR to varying floating rates.

Terms, Fair Value, and Credit Risk: Most of CalHFA's notional amounts of the fixed-payer swaps match the principal amounts of the associated debt. CalHFA uses 12 counterparties for its interest-rate swap transactions. Counterparties are required to collateralize their exposure to CalHFA when their credit ratings fall from AA to the highest single-A category, A1/A+. CalHFA is not required to provide collateralization until its ratings fall to the mid-single-A category, A2/A. As of June 30, 2009, CalHFA's swap portfolio has an aggregate negative fair value of $277 million due to a decline in interest rates. Fair values are as reported by CalHFA's counterparties and are estimated using the zero-coupon method. As CalHFA's swap portfolio has an aggregate negative fair value, CalHFA is not exposed to credit risk. However, if interest rates rise, the negative fair value of the swap portfolio would be reduced and could eventually become positive. At that point, CalHFA would become exposed to the counterparties' credit because the counterparties would be obligated to make payments to CalHFA in the event of termination. CalHFA has 159 swap transactions, with outstanding notional amounts of $4.2 billion. Standard & Poor's credit ratings for these counterparties range from A- to AAA; Moody's credit ratings range from A3 to Aaa.

Basis Risk: CalHFA's swaps contain the risk that the floating-rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because floating rates paid by swap counterparties are based on indices that consist of market-wide averages, while interest paid on CalHFA's variable-rate bonds is specific to individual bond issues. CalHFA's variable-rate tax-exempt bonds trade at a slight discount to the SIFMA index. Swaps associated with tax-exempt bonds for which CalHFA receives a variable-rate payment are based on a percentage of LIBOR; thus, CalHFA is exposed to basis risk if the relationship between SIFMA and LIBOR converges. As of June 30, 2009, the SIFMA rate was 0.35%, 65% of the one-month LIBOR was 0.20%, and 60% of the one-month LIBOR plus 26 basis points was 0.445%.

Termination Risk: Counterparties to CalHFA's interest rate swaps have termination rights that require settlement payments by either CalHFA or the counterparties, based on the fair value of the swap.

Rollover Risk: CalHFA's swap agreements have limited rollover risk because the agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled and anticipated reductions in the associated bonds payable.

G. Revenue Bond Defeasances

1. Current Year—Governmental Activities

The primary government did not issue any refunding bonds in the 2008-09 fiscal year.

2. Current Year—Business-type Activities

During the 2008-09 fiscal year, the DWR executed debt-related transactions to reduce dependencies on credit support facilities that were expiring or negatively impacted by economic uncertainties in the credit markets and to reduce prospective interest rate risk. The DWR converted $521 million of variable-rate power supply revenue bonds to fixed-rate bonds. In total, these conversion and remarketing transactions generated premiums of $8 million and debt issuance costs of $4 million, which will be amortized over the remaining lives of the bonds. The power supply revenue bonds are reported in the Electric Power Fund.

In March 2009, the primary government issued $288 million in water system revenue bonds. A portion of the proceeds were used to advance-refund $267 million of outstanding water system revenue bonds. The proceeds were deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds has been removed from the financial statements. This refunding will increase debt service payments by $23 million over the life of the bonds and will result in an economic gain of $16 million for the refunded bonds. These water system revenue bonds are reported in the Water Resources Fund.

3. Current Year—Discretely Presented Component Units

In March 2009, the University of California issued $794 million in general revenue bonds. A portion of the proceeds was used to refund $63 million in outstanding revenue bonds and certificates of participation. This refunding will decrease debt service payments by $308,000 through 2039 and will result in an economic gain of $2 million.

During the 2008-09 fiscal year, the California Housing Finance Agency issued two fixed-rate bond series totaling $110 million and a portion of the proceeds was used to current-refund $38 million in outstanding revenue bonds. This refunding will increase debt service payments by approximately $27 million and may also produce an economic loss of approximately $9 million.

4. Prior Years

In prior years, the primary government defeased certain bonds by placing the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service requirements. Accordingly, the assets and liabilities for these defeased bonds are not included in the financial statements. As of June 30, 2009, the outstanding balance of revenue bonds defeased in prior years was $4.7 billion for governmental activities and $2.6 billion for business-type activities.

In prior years, the University of California, a discretely presented component unit, defeased certain bonds. Investments that have maturities and interest rates sufficient to fund retirement of defeased liabilities are being held in irrevocable trusts for the debt service payments. Accordingly, the assets of the trust accounts and the liabilities for the defeased bonds are not included in the State’s financial statements. As of June 30, 2009, the outstanding balance of University of California revenue bonds defeased in prior years was $1.1 billion.

NOTE 17: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due from other funds and due to other funds represent short-term interfund receivables and payables resulting from the time lag between the dates on which goods and services are provided and received and the dates on which payments between entities are made. In addition, interfund borrowing, mainly from the Transportation Fund, nonmajor governmental funds, and fiduciary funds, is used to meet temporary imbalances of receipts and disbursements in the General Fund. The amount payable from the fiduciary funds to the General Fund is mainly for unclaimed property received at the end of the year that will be transferred to the General Fund for its use until claimed. Table 35 presents the amounts due from and due to other funds.

Table 35

Schedule of Due From Other Funds and Due To Other Funds
June 30, 2009
(amounts in thousands)

	Due To					
Due From	**General Fund**	**Federal Fund**	**Transportation Fund**	**Nonmajor Governmental Fund**	**Electric Power Fund**	**Water Resources Fund**
Governmental funds						
General Fund	$ —	$ —	$ 668,396	$ 1,491,811	$ —	$ —
Federal Fund	2,026,539	—	942,941	954,464	—	—
Transportation Fund	—	—	—	68,799	—	—
Nonmajor governmental funds	490,411	—	33,973	81,180	—	—
Total governmental funds	**2,516,950**	**––**	**1,645,310**	**2,596,254**	**––**	**––**
Enterprise funds						
Water Resources Fund	—	—	—	—	—	—
Public Building Construction Fund	456	—	—	—	—	—
State Lottery Fund	—	—	—	270,718	—	—
Unemployment Programs Fund	55,751	—	—	—	—	—
Nonmajor enterprise funds	456	—	—	10,553	—	—
Total enterprise funds	**56,663**	**––**	**––**	**281,271**	**––**	**––**
Internal service funds	**––**	**39**	**42,056**	**86,476**	**13,000**	**2,803**
Fiduciary funds	**27,088**	**––**	**––**	**109**	**––**	**––**
Total primary government	**$ 2,600,701**	**$ 39**	**$ 1,687,366**	**$ 2,964,110**	**$ 13,000**	**$ 2,803**

Due To						
Public Building Construction Fund	**State Lottery Fund**	**Unemployment Programs Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Fiduciary Funds**	**Total**
$ —	$ 318	$ —	$ 148	$ 185,431	$ 5,792,121	$ 8,138,225
—	—	161,153	220	79,959	5,320,336	9,485,612
266	—	—	—	9,422	479,690	558,177
—	—	308	31	42,652	497,995	1,146,550
266	**318**	**161,461**	**399**	**317,464**	**12,090,142**	**19,328,564**
—	—	—	—	12,222	—	12,222
—	—	—	—	41,398	11,342	53,196
—	—	—	—	—	—	270,718
—	—	—	—	—	—	55,751
—	—	—	66	46	—	11,121
––	**––**	**––**	**66**	**53,666**	**11,342**	**403,008**
17,657	**1,554**	**5,599**	**6,119**	**27,828**	**4,521**	**207,652**
––	**––**	**––**	**––**	**––**	**503**	**27,700**
$ 17,923	**$ 1,872**	**$ 167,060**	**$ 6,584**	**$ 398,958**	**$ 12,106,508**	**$ 19,966,924**

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. In addition to the temporary interfund cash-flow borrowing shown in Table 35, annual enacted budgets provide for long-term loans from many of the State's special funds—mainly the Transportation Fund and nonmajor governmental funds—to the General Fund. Due to the depletion of cash reserves in the General Fund, these loans increased significantly during the 2008-09 fiscal year. The $1.8 billion in Transportation Fund loans payable from the General Fund is also the result of deferred Proposition 42 transfers for traffic congestion relief and other direct loans from the Traffic Congestion Relief Program. Table 36 presents the interfund receivables and payables.

Table 36

Schedule of Interfund Receivables and Payables
June 30, 2009
(amounts in thousands)

	Interfund Payables				
Interfund Receivables	**General Fund**	**Transportation Fund**	**Nonmajor Governmental Funds**	**Water Resources Fund**	**Unemployment Programs Fund**
Governmental funds					
General Fund	$ —	$ 2,573,500	$ 6,974,733	$ —	$ 1,046,323
Nonmajor governmental funds	13,330	15,472	—	—	—
Total governmental funds	**13,330**	**2,588,972**	**6,974,733**	**––**	**1,046,323**
Enterprise funds					
Nonmajor enterprise funds	—	—	—	—	—
Total enterprise funds	**––**	**––**	**––**	**––**	**––**
Internal service funds	**40,650**	**––**	**1,191**	**91,517**	**––**
Fiduciary funds	**69,295**	**––**	**––**	**––**	**––**
Total primary government	**$ 123,275**	**$ 2,588,972**	**$ 6,975,924**	**$ 91,517**	**$ 1,046,323**

Interfund Payables			
Nonmajor Enterprise Funds	Internal Service Funds	Agency Funds	Total
$ 211,039	$ 33,242	$ 199,437	$ 11,038,274
—	—	—	28,802
211,039	**33,242**	**199,437**	**11,067,076**
2,060	—	—	2,060
2,060	**––**	**––**	**2,060**
––	**––**	**––**	**133,358**
––	**––**	**––**	**69,295**
$ 213,099	**$ 33,242**	**$ 199,437**	**$ 11,271,789**

Due from primary government and due to component units represent short-term receivables and payables between the primary government and component units resulting from the time lag between the dates on which goods and services are provided and received and the dates on which payments between entities are made. Table 37 presents the due from primary government and due to component units.

Table 37

Schedule of Due From Primary Government and Due to Component Units
June 30, 2009
(amounts in thousands)

	Due To				
	Primary Government	Component Units			
Due From	General Fund	University of California	Public Employees' Benefits	Nonmajor Component Units	Total
Governmental funds					
Nonmajor governmental funds	$ —	$ 68,562	$ —	$ 318	$ 68,880
Total governmental funds	**––**	**68,562**	**––**	**318**	**68,880**
Internal service funds	**––**	**––**	**2,623**	**673**	**3,296**
Total primary government	**$ ––**	**$ 68,562**	**$ 2,623**	**$ 991**	**$ 72,176**
Component units					
University of California	516,295				
Total component units	**$ 516,295**				

B. Interfund Transfers

As required by law, transfers move money collected by one fund to another fund, which then disburses it. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfers from the General Fund were $1.3 billion to the Transportation Fund for traffic congestion relief and $1.8 billion to nonmajor governmental funds for support of trial courts. The Federal Fund transfer to nonmajor governmental funds includes a $1.4 billion transfer for unemployment program administration. Table 38 presents interfund transfers of the primary government.

Table 38

Schedule of Interfund Transfers
June 30, 2009
(amounts in thousands)

	Transferred To					
Transferred From	**General Fund**	**Transportation Fund**	**Nonmajor Governmental Funds**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total**
Governmental funds						
General Fund	$ —	$ 1,332,334	$ 2,959,927	$ —	$ —	$ 4,292,261
Federal Fund	—	—	1,549,729	—	—	1,549,729
Transportation Fund	102,005	—	359,667	—	—	461,672
Nonmajor governmental funds	164,888	1,077	219,634	—	397	385,996
Total governmental funds	**266,893**	**1,333,411**	**5,088,957**	**––**	**397**	**6,689,658**
Enterprise funds						
Public Building Construction Fund	50	—	—	—	—	50
Nonmajor enterprise funds	20,615	—	350	204	—	21,169
Total enterprise funds	**20,665**	**––**	**350**	**204**	**––**	**21,219**
Internal service funds	**2,372**	**––**	**63,828**	**––**	**––**	**66,200**
Total primary government	**$ 289,930**	**$ 1,333,411**	**$ 5,153,135**	**$ 204**	**$ 397**	**$ 6,777,077**

NOTE 18: FUND DEFICITS AND ENDOWMENTS

A. Fund Deficits

Table 39 shows the funds that had deficits.

Table 39

Schedule of Fund Deficits
June 30, 2009
(amounts in thousands)

	Governmental Funds	Enterprise Funds	Internal Service Funds	Component Units
General Fund	$ 16,083,896	$ —	$ —	$ —
Unemployment Programs Fund	—	1,499,152	—	—
Architecture Revolving Fund	—	—	29,292	—
Financial Information Systems Fund	—	—	3,639	—
Public Employees' Benefits	—	—	—	132,047
Total fund deficits	**$ 16,083,896**	**$ 1,499,152**	**$ 32,931**	**$ 132,047**

B. Discretely Presented Component Unit Endowments and Gifts

The University of California, a discretely presented component unit, administers certain restricted nonexpendable, restricted expendable, and unrestricted endowments that are included in the related net asset categories of the government-wide and fund financial statements. As of June 30, 2009, the total value of restricted and unrestricted endowments and gifts was $8.6 billion and $1.1 billion, respectively. The university's policy is to retain appreciation on investments with the endowment after an annual income distribution. The net appreciation available to meet future spending needs upon approval by the Board of Regents amounted to $1.2 billion at June 30, 2009. The portion of investment returns earned on endowments and distributed each year to support current operations is based on a rate approved by the Board of Regents. In addition, the California State University Auxiliary Organizations and the University of California Hastings College of the Law, nonmajor component units, have restricted nonexpendable and restricted expendable endowments of $698 million and $5 million, respectively.

NOTE 19: RISK MANAGEMENT

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. Generally, the exceptions are when a bond resolution or a contract requires the primary government to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, no insurance settlement in the last three years has exceeded insurance coverage. The primary government generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. All claim payments are on a "pay as you go" basis, with workers' compensation benefits for self-insured agencies being initially paid by the State Compensation Insurance Fund.

The discounted liability for unpaid self-insured workers' compensation losses is estimated to be $2.6 billion as of June 30, 2009. This estimate is based on actuarial reviews of the State's employee workers' compensation program and includes indemnity payments to claimants, as well as all other costs of providing workers' compensation benefits, such as medical care and rehabilitation. The estimate also includes the liability for unpaid services fees, industrial disability leave benefits, and incurred-but-not-reported amounts. The estimated total liability of approximately $3.6 billion is discounted to $2.6 billion using a 3.5% interest rate. Of the total, $298 million is a current liability, of which $191 million is included in the General Fund, $105 million in the special revenue funds, and $2 million in the internal service funds. The remaining $2.3 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Assets.

The University of California, a discretely presented component unit, is self-insured for medical malpractice, workers' compensation, employee health care, and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. The estimated liabilities are based on an independent actuarial determination of the anticipated future payments, discounted at rates ranging from 4.5% to 5.5%. The other major discretely presented component units do not have significant liabilities related to self-insurance.

Changes in the self-insurance claims liability for the primary government and the University of California are shown in Table 40.

Table 40

Schedule of Changes in Self-Insurance Claims
Years Ended June 30
(amounts in thousands)

	Primary Government		University of California – Discretely Presented Component Unit	
	2009	2008	2009	2008
Unpaid claims, beginning	$ 2,551,866	$ 2,321,887	$ 596,741	$ 559,581
Incurred claims	353,239	568,617	189,652	204,282
Claim payments	(327,467)	(338,638)	(188,379)	(167,122)
Unpaid claims, ending	**$ 2,577,638** *	**$ 2,551,866**	**$ 598,014**	**$ 596,741**

* Includes $2,062 for business-type activities.

NOTE 20: NONMAJOR ENTERPRISE SEGMENT INFORMATION

A segment is an identifiable activity reported as or within an enterprise fund or another stand-alone entity for which debt is outstanding and a revenue stream has been pledged in support of that debt. In addition, to qualify as a segment, an activity must be subject to an external requirement to separately account for revenues, expenses, gains and losses, assets, and liabilities of the activity. All of the activities reported in the following condensed financial information meet these requirements.

Table 41 presents the Condensed Statement of Net Assets; the Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Condensed Statement of Cash Flows for nonmajor enterprise funds that meet the definition of a segment. The primary sources of revenues for these funds follow.

High Technology Education Fund: Rental payments on public buildings that are used for educational and research purposes related to specific fields of high technology.

State University Dormitory Building Maintenance and Equipment Fund: Charges to students for housing and parking, and student fees for campus unions.

State Water Pollution Control Revolving Fund: Interest charged on loans to communities for construction of water pollution control facilities and projects.

Housing Loan Fund: Interest payments from low-interest, long-term farm and home mortgage loan contracts to eligible veterans living in California.

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Table 41

Nonmajor Enterprise Segments

(amounts in thousands)

Condensed Statement of Net Assets

June 30, 2009

	High Technology Education	State University Dormitory Building Maintenance and Equipment
Assets		
Due from other funds	$ 137	$ 2,469
Due from other governments	—	—
Other current assets	24,891	728,744
Capital assets	—	2,729,301
Other noncurrent assets	97,638	794,128
Total assets	**$ 122,666**	**$ 4,254,642**
Liabilities		
Due to other funds	$ —	$ 10,175
Other current liabilities	15,954	231,056
Noncurrent liabilities	70,567	3,172,124
Total liabilities	**86,521**	**3,413,355**
Net assets		
Investment in capital assets, net of related debt	—	(472,827)
Restricted	36,145	368,448
Unrestricted	—	945,666
Total net assets	**36,145**	**841,287**
Total liabilities and net assets	**$ 122,666**	**$ 4,254,642**

Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year Ended June 30, 2009

	High Technology Education	State University Dormitory Building Maintenance and Equipment
Operating revenues	$ 15,975	$ 764,412
Depreciation expense	—	(86,358)
Other operating expenses	(15,590)	(399,991)
Operating income (loss)	385	278,063
Nonoperating revenues (expenses)	—	47,042
Capital contributions	—	—
Transfers out	—	(204)
Change in net assets	385	324,901
Total net assets, July 1, 2008	**35,760**	**516,386**
Total net assets, June 30, 2009	**$ 36,145**	**$ 841,287**

Condensed Statement of Cash Flows

Year Ended June 30, 2009

	High Technology Education	State University Dormitory Building Maintenance and Equipment
Net cash provided by (used in):		
Operating activities	$ 11,932	$ 425,057
Noncapital financing activities	(36,730)	(204)
Capital and related financing activities	—	(347,866)
Investing activities	—	(88,334)
Net decrease	**(24,798)**	**(11,347)**
Cash and pooled investments at July 1, 2008	**47,810**	**517,843**
Cash and pooled investments at June 30, 2009	**$ 23,012**	**$ 506,496**

State Water Pollution Control	Housing Loan	Total
$ 1,335	$ 1,315	$ 5,256
134,461	—	134,461
347,376	363,542	1,464,553
—	532	2,729,833
2,621,493	1,741,058	5,254,317
$ 3,104,665	**$ 2,106,447**	**$ 9,588,420**
$ 235	$ —	$ 10,410
26,831	90,107	363,948
166,983	1,804,425	5,214,099
194,049	**1,894,532**	**5,588,457**
—	532	(472,295)
476,792	211,383	1,092,768
2,433,824	—	3,379,490
2,910,616	**211,915**	**3,999,963**
$ 3,104,665	**$ 2,106,447**	**$ 9,588,420**
$ 52,866	$ 108,157	$ 941,410
—	(38)	(86,396)
(4,416)	(127,271)	(547,268)
48,450	(19,152)	307,746
(788)	(1,989)	44,265
71,882	—	71,882
—	—	(204)
119,544	(21,141)	423,689
2,791,072	**233,056**	**3,576,274**
$ 2,910,616	**$ 211,915**	**$ 3,999,963**
$ (102,968)	$ (58,970)	$ 275,051
(31,905)	(184,927)	(253,766)
73,781	—	(274,085)
8,610	(2,642)	(82,366)
(52,482)	**(246,539)**	**(335,166)**
340,994	**552,372**	**1,459,019**
$ 288,512	**$ 305,833**	**$ 1,123,853**

NOTE 21: NO COMMITMENT DEBT

Certain debt of the nonmajor component units is issued to finance activities such as construction of new facilities, remodeling of existing facilities, and acquisition of equipment. This debt is secured solely by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, 2009, these component units had $20.3 billion of debt outstanding, which is not debt of the State.

NOTE 22: CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which normally occur in governmental operations. To the extent they existed, the following were accrued as a liability in the government-wide financial statements: legal proceedings that were decided against the primary government before June 30, 2009; legal proceedings that were in progress as of June 30, 2009, and were settled or decided against the primary government as of February 12, 2010; and legal proceedings having a high probability of resulting in a decision against the primary government as of February 12, 2010, and for which amounts could be estimated. In the governmental fund financial statements, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made. In the proprietary fund financial statements, the entire liability is recorded in the fund from which payment will be made.

In addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may impair its revenue sources or require it to make significant expenditures. Because of the prospective nature of these proceedings, no provision for the potential liability has been made in the financial statements.

Following are the more significant lawsuits pending against the primary government.

The primary government is the defendant in two cases that raise essentially the same issues regarding Assembly Bill 5 (AB 5), which became effective July 1, 2008, and reduced reimbursement to various Medi-Cal service providers by 10%. *Independent Living Center of Southern California, Inc. et al. v. Sandra Shewry et al.* was filed on behalf of various Medi-Cal providers and associations to prevent the reimbursement cuts that they allege violate state and federal Medi-Cal/Medicaid laws. A U. S. district court granted the preliminary injunction for various providers. Multiple appeals were filed by both sides in response to the injunction and the U.S. Court of Appeals affirmed the injunction. The State is currently preparing a petition for review by the U.S. Supreme Court. *California Medical Association et al. v. Sandra Shewry et al.* raises essentially the same issues; however, it was filed by different providers. This case was kept in the state superior court and the preliminary injunction was denied. The plaintiff has appealed that ruling and it will probably amend its original complaint to add a Supremacy Clause so that the case can be heard in federal court. Following the enactment of AB 5, the Legislature enacted Assembly Bill 1183 (AB 1183), which terminated AB 5 as of March 2009 and replaced the 10% Medi-Cal provider cut with a smaller reimbursement cut. A third case, *Managed Pharmacy Care et al. v. David Maxwell-Jolly,* was filed to prevent the implementation of AB 1183, contending that it violated the Supremacy Clause. A U. S. district court granted the plaintiff's preliminary injunction and the injunction was appealed to the U.S. Court of Appeals. The potential shared cost between the State and the federal government if the plaintiffs prevail in enjoining AB 5 prior to March 2009 would be approximately $335 million.

The primary government is a defendant in three cases regarding the constitutionality of a fee imposed on limited liability companies (LLC). In *Northwest Energetic Services, LLC v. Franchise Tax Board*, the Court of Appeal found the fee unconstitutional only as applied to the plaintiff. The primary government has already begun to pay refunds to LLCs with the same facts as *Northwest* who have no income earned inside California. In *Ventas Finance I, LLC v. Franchise Tax Board*, the Court of Appeal also ruled that the fee is unconstitutional as applied to the plaintiff, but it awarded only a partial refund because Ventas received income from both inside and outside of California. The plaintiff filed a petition requesting a review of the case by the U. S. Supreme Court; the petition was denied. The third case, *Bakersfield Mall, LLC v. Franchise Tax Board*, is still pending. It raised the same constitutional issues as *Northwest* and *Ventas,* but initially pertained to LLCs that conduct business solely within California. Bakersfield Mall, LLC recently amended its complaint to reflect the fact that not all of its income is derived within the State, making it similar to the *Ventas* case. This plaintiff also intended to bring a class action suit for refund on behalf of all similarly situated LLCs and to declare the LLC fee unconstitutional. However, the Court of Appeal has ruled Bakersfield Mall, LLC did not follow mandatory class action claim procedures. Actual and expected future claims for refunds from LLCs are estimated to be approximately $660 million plus interest. The Franchise Tax Board estimates the actual amount of refunds to be paid will be $115 million plus interest.

The primary government is a defendant in *River Garden Retirement Home v. Franchise Tax Board*, a case that challenges the constitutionality of the penalty assessed under the State's tax amnesty program. Under the amnesty program, for taxable years beginning before January 1, 2003, taxpayers who had not paid or had underpaid an eligible tax could agree to pay the tax and waive their rights to claim refunds. In exchange, certain penalties and fees associated with the unpaid taxes would be waived and no criminal actions would be brought for the taxable years for which amnesty was allowed. The program also imposed a new penalty equal to 50% of accrued interest as of March 31, 2005, on any unpaid tax liabilities ultimately determined to be due for taxable years 2002 and earlier for which amnesty could have been requested. The trial court granted judgment for the State, but the plaintiff appealed. An adverse action in the appellate court could result in the State being forced to return $1.0 billion to $1.5 billion of protective claim deposits received by the Franchise Tax Board. The estimate also includes approximately $100 million in refunds of penalties assessed but not yet paid and penalty revenues that would not be received.

The primary government is the defendant in numerous cases regarding the Governor's executive orders directing the furlough, without pay, of state employees. The first executive order, issued on December 19, 2008, directed furloughs of two days per month, effective February 1, 2009, through June 30, 2010. The second order, issued on July 1, 2009, required a third furlough day per month, effective through June 30, 2010. The furlough cases are at various stages in the court process; following are highlights of two of the cases. Various plaintiffs filed a lawsuit against the Governor and other state officers and argued that as the State Compensation Insurance Fund (SCIF) is financially and administratively independent, the furlough order should not include its employees. A San Francisco Superior Court judge ruled that the Governor should not have furloughed state employees working for the SCIF. The California Correctional Peace Officers Association (CCPOA) also sued the Governor and other state officers, arguing that furloughs are a de facto salary cut that is in violation of state law, as its members cannot take their furlough days off due to operational needs. The Alameda County Superior Court ruled in favor of the CCPOA, and ordered the State to pay the CCPOA's members for all hours worked for which furlough credits have not yet been used. The potential outcome for the other cases is uncertain.

The primary government is the defendant in *California Redevelopment Association et al. v. Michael C. Genest et al.*, a case that challenges the constitutionality of Assembly Bill X4-26 that requires that redevelopment agencies remit a total of $1.7 billion in 2009-10 fiscal year and $350 million in 2010-11 fiscal year to a county Supplemental Education Revenue Augmentation Fund to be used by local schools. The plaintiff is asking the trial court to enjoin implementation of the legislation. If the trial court grants judgment for the plaintiff, the State would need to pay the challenged amount to the schools from the General Fund.

The University of California, the State Compensation Insurance Fund (SCIF), the California Housing Finance Agency (CalHFA) and nonmajor discretely presented component units are contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of their activities. Although there are inherent uncertainties in any litigation, the management and the general counsel of the university, SCIF, and CalHFA are of the opinion that the outcome of such matters either will not have a material effect on the financial statements or cannot be estimated at this time.

B. Federal Audit Exceptions

The primary government receives substantial funding from the federal government in the form of grants and other federal assistance. The primary government, the university, and CalHFA are entitled to these resources only if they comply with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; they may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government, the university, and CalHFA may incur a liability to the federal government.

NOTE 23: PENSION TRUSTS

Two retirement systems, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), which are fiduciary component units, are included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements. The pension liability for all pension and other employee benefit trust funds was determined in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*. The amounts of the pension liability for all pension and other employee benefit trust funds are presented in Table 43 as the net pension obligation (NPO) as of June 30, 2009. The investments of these fiduciary component units are presented in Table 6 in Note 3, Deposits and Investments.

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, and the Legislators' Retirement Fund. CalPERS also administers three defined contribution plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the Public Agency Deferred Compensation Program, and the public employee Supplemental Contributions Program Fund. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS Web site at www.CalPERS.ca.gov.

CalPERS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recorded when due and the employer has made a formal commitment to provide the contributions. Benefits under the defined benefit plans and refunds are recognized when due and payable in accordance with the terms of each plan.

CalSTRS administers four defined benefit retirement plans within the State Teachers' Retirement Plan: the Defined Benefit Program (DB Program), the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. CalSTRS also offers the Pension2 Program through a third-party administrator. The Pension2 Program is a tax-deferred defined contribution plan meeting the requirements of Internal Revenue Code Sections 403(b) and 457. The Teachers' Health Benefits Fund provides post-employment health benefits to retired members of the DB Program. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, California 95851.

CalSTRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and primary government contributions are recognized when due and when the employer or the primary government has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the retirement and benefits programs.

A. Public Employees' Retirement Fund

1. Fund Information

Plan Description: CalPERS administers the Public Employees' Retirement Fund (PERF), which is an agent multiple-employer defined benefit retirement plan. Employers participating in the PERF include the primary government and certain discretely presented component units, 61 school employers, and 1,507 public agencies as of June 30, 2009.

The amount by which the actuarial accrued liability exceeded the actuarial value of assets in the PERF for the primary government and other participating agencies was $35.0 billion at June 30, 2008. This is a result of the difference between the actuarial value of assets of $233.3 billion and the actuarial accrued liability of $268.3 billion. Contributions are actuarially determined.

2. Employer's Information

Plan Description: The primary government and certain discretely presented component units contribute to the PERF. CalPERS acts as a common investment and administrative agent of the primary government and the other member agencies. The discretely presented component units' participation in the PERF is not a material portion of the program. The primary government employees served by the PERF include: first-tier and second-tier miscellaneous and industrial employees, California Highway Patrol employees, peace officers and firefighters, and other safety members. The payroll for primary government employees covered by the PERF in the year ended June 30, 2009, was approximately $16.5 billion.

All employees in a covered class of employment who work half-time or more are eligible to participate in the PERF. The PERF provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five years or after ten years for second-tier employees. The PERF provides death, disability, and survivor benefits. The benefit provisions are established by statute.

Funding Policy: Benefits are funded by contributions from members and the primary government and by earnings from investments. Member and primary government contributions are a percentage of applicable member compensation. Member rates are defined by law and based on the primary government's benefit formula. The primary government contribution rates are determined by periodic actuarial valuations.

Employees, with the exception of employees in the second-tier plans and the State's Alternative Retirement Program, contribute to the fund based on the required contribution rates. The contribution rates of active plan members are based on a percentage of salary over a monthly base compensation amount of $133 to $863. Employees' required contributions vary from 5.0% to 8.0% of their salary over the base compensation amount.

All of the primary government employees served by the PERF are now covered by group term life insurance. The required employer contribution rates for the primary government are shown in Table 42.

Table 42

Schedule of Required Employer Contribution Rates for the Primary Government by Member Category

Year Ended June 30, 2009

	Normal Cost	Unfunded Liability	Group Term Life Benefit	Total Rate
Miscellaneous members				
First tier	9.897 %	6.677 %	0.000 %	16.574 %
Second tier	9.793	6.677	0.000	16.470
Industrial (first and second tier)	13.694	3.500	0.042	17.236
California Highway Patrol	16.589	15.516	0.044	32.149
Peace officers and firefighters	17.656	8.408	0.000	26.064
Other safety members	15.378	3.014	0.019	18.411

For the year ended June 30, 2009, the annual pension cost (APC) and the amount of contributions made by the primary government were each $3.1 billion. The APC and the percentage of APC contributed for the last three years are shown in Table 43. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 2008, is also shown in Table 43 for the primary government.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions: In the June 30, 2008 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 7.75% investment rate of return, projected salary increases of 3.25% to 19.95%, depending on duration of service, and post-retirement benefit increases of 2.00% - 3.00%, compounded annually. The projected salary increases include a 3.00% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis over 21 years to 28 years.

B. Judges' Retirement Fund

Plan Description: CalPERS administers the Judges' Retirement Fund (JRF), which is an agent multiple-employer defined benefit retirement plan. The JRF membership includes justices of the Supreme Court and courts of appeal, as well as judges of superior courts, appointed or elected prior to November 9, 1994. There are 59 employers participating in the JRF for the year ended June 30, 2009. The payroll for employees covered by the JRF for the year ended June 30, 2009, was approximately $138 million. The primary government pays the employer contributions for all employees covered by the JRF.

The JRF provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF provides death, disability, and survivor benefits. Benefits for the JRF are established by the Judges' Retirement Law.

Funding Policy: The contribution rate of active plan members is defined by law and is based on a percentage of salary over a base compensation amount. For the year ended June 30, 2009, the required member rate for the JRF was 8.0%.

The contributions of the primary government to the JRF are made pursuant to state statute and are not actuarially determined. As of June 30, 2009, employer contributions are required to be 8.0% of applicable member compensation. Other funding to meet benefit payment requirements of the JRF is currently provided by: filing fees, which require varying amounts, depending on fee rate and number of filings; investments, which earn the current yield on short-term investments; and the primary government's balancing contributions, as required by the Judges' Retirement Law. The balancing contributions are an amount at least equal to the estimated benefits payable during the ensuing fiscal year, less the sum of the estimated member contributions during the ensuing fiscal year and net assets available for benefits at the beginning of the fiscal year ("pay as you go" basis).

The annual pension cost (APC) and the amount of employer contributions made to the JRF for the year ended June 30, 2009, were $400 million and $191 million, respectively. The net pension obligation (NPO) of the JRF at June 30, 2009, was $2.2 billion, an increase of $210 million over last year's balance of $2.0 billion. The APC is comprised of $791 million for the annual required contribution (ARC), $141 million for interest on the NPO, and a negative $532 million adjustment to the ARC. An actuarial valuation of the JRF's assets and liabilities is made annually. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 43. Information on the last valuation, which was performed as of June 30, 2008, is shown in Table 43. The aggregate cost method that was used for the June 30, 2008 valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, the information about funded status in Table 43 is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of the plan.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions: In the June 30, 2008 actuarial valuation, the aggregate cost method was used. The actuarial assumptions included a 4.50% investment rate of return, projected salary increases of 3.25%, and post-retirement benefit increases of 3.25%. The projected salary increases include a 3.00% inflation assumption.

C. Judges' Retirement Fund II

Plan Description: CalPERS administers the Judges' Retirement Fund II (JRF II), which is an agent multiple-employer defined benefit retirement plan. The membership of the JRF II includes justices of the same courts covered by the JRF who were appointed or elected on or subsequent to November 9, 1994. There are 59 employers participating in the JRF II. The payroll for employees covered by the JRF II for the year ended June 30, 2009, was approximately $195 million. The primary government pays the employer contributions for all employees covered by the JRF II.

The JRF II provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF II provides death, disability, and survivor benefits. Benefits for the JRF II are established by the Judges' Retirement System II Law.

Funding Policy: The required contribution rate of active plan members is defined by law and is based on a percentage of salary over a base compensation amount. For the year ended June 30, 2009, the required member rate for the JRF II was 8.0%, and the primary government's contribution rate for the JRF II was 20.23% of applicable member compensation.

Actuarial valuations for the JRF II are required to be carried out annually. The legislated primary government contribution rate is adjusted periodically as part of the annual Budget Act, in order to maintain or restore the actuarial soundness of the fund.

For the year ended June 30, 2009, the annual pension cost (APC) and the amount of contributions made for the JRF II were approximately $39.5 million, which is less than the actuarially determined required contribution of approximately $42.9 million. The APC and the percentage of APC contributed for the year ended June 30, 2009, are shown in Table 43. Information on the last valuation, which was performed as of June 30, 2008, is also shown in Table 43.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions: In the June 30, 2008 actuarial valuation, the aggregate entry age normal cost method was used. The actuarial assumptions included a 7.25% investment rate of return, projected salary increases of 3.25%, and post-retirement benefit increases of 3.00%. The projected salary increases include a 3.00% inflation assumption. The UAAL is being amortized as a level percentage of increasing payroll on a closed basis over an average of 30 years.

D. Legislators' Retirement Fund

Plan Description: CalPERS administers the Legislators' Retirement Fund (LRF), which is a single-employer defined benefit retirement plan. The eligible membership of the LRF includes state legislators serving in the legislature prior to November 7, 1990, constitutional officers, and legislative statutory officers. For the fiscal year ending June 30, 2009, no statutory contribution was required, based on the June 30, 2007 valuation.

The LRF provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The plan provides death, disability, and survivor benefits. Benefits for the LRF are established by the Legislators' Retirement Law.

No current legislators are eligible to participate in the LRF. The only active members in the LRF are 14 constitutional officers (including the Insurance Commissioner and members of the Board of Equalization) and legislative statutory officers.

Funding Policy: The employer contribution requirements of the LRF are based on actuarially determined rates. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. Member contribution rates are defined by law. For the year ended June 30, 2009, employee contributions were not required because the plan was superfunded. "Superfunded" means that the plan's actuarial value of assets exceeds the present value of future benefits for current members. However, some members made contributions toward military service and prior service.

The net pension obligation (NPO) of the LRF on June 30, 2009, was approximately $10 million. There was no annual pension cost (APC) because the annual required contribution (ARC) equaled zero and the interest on the NPO closely approximated the adjustment to the ARC. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 43. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. Information on the last valuation, which was performed as of June 30, 2008, is also shown in Table 43. The aggregate cost method that was used for the June 30, 2008 valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, the information about funded status in Table 43 is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of the plan.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions: In the June 30, 2008 actuarial valuation, the aggregate cost method was used. The actuarial assumptions included a 7.00% investment rate of return, projected salary increases of 3.25%, and post-retirement benefit increases of 3.00%. The projected salary increases include a 3.00% inflation assumption.

E. State Peace Officers' and Firefighters' Defined Contribution Plan Fund

Plan Description: CalPERS administers the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), which is a defined contribution pension plan. The plan is a qualified money purchase pension plan under Section 401(a) of Title 26 of the Internal Revenue Code. It is intended to supplement the retirement benefits provided by the Public Employees' Retirement Fund to eligible correctional employees employed by the State of California.

Funding Policy: Contributions to the plan are funded entirely by the primary government with a contribution rate of 2.0% of the employee's base pay, not to exceed contribution limits established by the Internal Revenue Code. Contribution requirements are established and may be amended through a memorandum of understanding from the State of California Department of Personnel Administration. These contributions, as well as the participant's share of the net earnings of the fund, are credited to the participant's account. For the year ended June 30, 2009, contributions by the primary government to the SPOFF were approximately $53 million.

Contributions are invested in the CalPERS Moderate Asset Allocation Fund. Distributions are allowed only at retirement or permanent separation from all State employment. The benefits paid to a participant will depend only on the amount contributed to the participant's account and earnings on the value of the participant's account. Plan provisions are established by and may be amended by statute. At June 30, 2009, there were 41,035 participants in the SPOFF.

F. Teachers' Retirement Fund

Plan Description: CalSTRS administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to administer the State Teachers' Retirement Plan (STRP). The STRP is a defined benefit pension plan that provides for retirement, disability, and survivor benefits. Four programs comprise the STRP: the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, the Cash Balance (CB) Benefit Program, and the Replacement Benefit (RB) Program. The STRP is a cost-sharing, multiple-employer, defined-benefit retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

Membership in the DB Program is mandatory for all employees meeting the eligibility requirements. The DB Program provides benefits based on a member's age, final compensation, and years of service. Vesting occurs after five years. In addition, the retirement program provides benefits to members upon disability and to survivors upon the death of eligible members. The Teachers' Retirement Law establishes the benefits for the DB Program. At June 30, 2009, the DB Program had 1,745 contributing employers and as of June 30, 2008, had 461,378 active and 147,997 inactive program members and 223,968 benefit recipients. The primary government is a nonemployer contributor to the DB Program. The payroll for employees covered by the DB Program for the year ended June 30, 2009, was approximately $28.2 billion.

Membership in the DBS Program is automatic for all members of the DB Program. The DBS Program provides benefits based on the balance of member accounts. Vesting occurs immediately. The Teachers' Retirement Law establishes the benefits for the DBS Program. The primary government does not contribute to the DBS Program.

The CB Benefit Program is designed for employees of California public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Employer participation in the CB Benefit Program is optional. However, if the employer elects to offer the CB Benefit Program, each eligible employee will automatically be covered by the CB Benefit Program unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire. At June 30, 2009, the CB Benefit Program had 33 contributing school districts and 31,599 contributing participants.

The RB Program is a qualified excess benefits arrangement for DB Program members that is administered through a separate pension trust apart from the other three STRP programs and was established in accordance with Internal Revenue Code (IRC) Section 415(m). IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The program is funded as needed. Monthly contributions that would otherwise be credited to the DB program are instead credited to the RB Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equal to the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes. At June 30, 2009, the RB Program had 141 participants.

Funding Policy: DB Program benefits are funded by contributions from members, employers, the primary government, and earnings from investments. Members and employers contribute a percentage of applicable member earnings. The Teachers' Retirement Law governs member rates, employer contribution rates, and primary government contributions.

The DB Program contribution rate of members is 6.00% of creditable compensation through December 31, 2010, increasing to 8.00% thereafter for service less than or equal to one year of creditable service per fiscal year. The employer contribution rate is 8.25% of creditable compensation for service less than or equal to one year of creditable service per fiscal year. For service in excess of one year within one fiscal year, the employer contribution rate is 0.25%. In fiscal year 2008-09, the General Fund contribution was 2.017% of total creditable compensation of the fiscal year ending in the prior calendar year. Education Code section 22955(b) states that the General Fund will contribute additional quarterly payments at a contribution rate of 0.524% of creditable earnings of the fiscal year ending in the immediately preceding calendar year when there is an unfunded obligation or a normal cost deficit. The percentage is adjusted up to 0.25% per year to reflect the contributions required to fund the unfunded obligation or the normal cost deficit. However, the transfer may not exceed 1.505% of creditable compensation from the immediately preceding calendar year. The normal cost deficit is the difference between the normal cost rate and the member and employer contributions, which equal 16.00% of creditable compensation. Based on the most recent actuarial valuation, as of June 30, 2008, no normal cost deficit or an unfunded obligation exists for benefits in place as of

July 1, 1990. Therefore, the General Fund is not required to contribute the additional quarterly payments at a contribution rate of 0.524% starting October 1, 2009.

The DBS Program member contribution rate is 2.0% of creditable compensation for service less than or equal to one year of creditable service per fiscal year. For service in excess of one year within one fiscal year, the member contribution rate is 8.0% and the employer rate is 8.0%.

For the year ended June 30, 2009, the annual pension cost (APC) for the DB Program was approximately $4.5 billion; the employer and primary government contributions were approximately $2.3 billion and $536 million, respectively. The APC and the percentage of APC contributed for the last three years are shown in Table 43. Actuarial valuations of the DB Program are performed annually. Information from the last valuation is shown in Table 43.

G. CalSTRS Pension2 Program

Plan Description: CalSTRS administers the Pension2 Program, which is comprised of the IRC 403(b) and 457 programs, through a third-party administrator. The Pension2 is a defined contribution plan and is open to any employee who is eligible to participate. Contributions to the program are voluntary; however, the Internal Revenue Code does impose a maximum amount that can be contributed annually. At June 30, 2009, the Pension2 IRC 403(b) and 457 programs had approximately 427 and 2 participating employers (school districts) and approximately 5,632 and 17 plan members, respectively.

H. Teachers' Health Benefits Fund

Plan Description: CalSTRS administers the Teachers' Health Benefits Fund (THBF), which was established pursuant to Chapter 1032, Statutes of 2000 (SB 1435), to provide the Medicare Premium Payment Program for eligible retired members of the DB Program. At June 30, 2009, there were 7,795 benefit recipients.

Funding Policy: The THBF is funded as needed from the monthly DB Program statutory employer contribution that exceeds the amount needed to finance the liabilities of the DB Program based on the June 30, 2000 valuation of the DB Program.

Table 43

Actuarial Information – Pension Trusts – Primary Government
Valuation Date As Indicated

	Public Employees' Retirement Fund	Judges' Retirement Fund[1]	Judges' Retirement II Fund
Last actuarial valuation	June 30, 2008	June 30, 2008	June 30, 2008
Actuarial cost method	Individual Entry Age Normal	Aggregate Cost	Aggregate Entry Age Normal
Amortization method	Level % of Payroll, Closed	None	Level % of Payroll, Closed
Remaining amortization period	21 to 28 years	None	Average of 30 Years
Asset valuation method	Smoothed Market Value	Market Value	Smoothed Market Value
Actuarial assumption			
Investment rate of return	7.75 %	4.50[4] %	7.25 %
Projected salary increase	3.25 - 19.95	3.25	3.25
Includes inflation at	3.00	3.00	3.00
Post-retirement benefit increases	2.00 - 3.00	3.25	3.00
Annual pension costs (in millions)			
Year ended 6/30/07	$ 2,782	$ 324	$ 27
Year ended 6/30/08	3,016	315	32
Year ended 6/30/09	3,080	400	43
Percent contribution			
Year ended 6/30/07	100 %	23 %	95 %
Year ended 6/30/08[3]	100	26	116
Year ended 6/30/09	100	24	92
Net pension obligation (NPO) (in millions)			
Year ended 6/30/07	—	$ 1,864	$ 2
Year ended 6/30/08	—	2,016	(3)
Year ended 6/30/09	—	2,226	—
Funding as of last valuation (in millions)			
Actuarial value – assets	$ 91,349	19	335
Actuarial accrued liabilities (AAL) – entry age	107,642	3,607	367
Excess of actuarial value of assets over AAL (EAV) (unfunded actuarial accrued liability (UAAL))	(16,293)	(3,588)	(32)
Covered payroll	16,460	111	175
Funded ratio	84.9 %	0.5 %	91.3 %
EAV (UAAL) as percent of covered payroll	(99.0) %	(3,232.4) %	(18.3) %

[1] The aggregate cost method is used to determine the annual required contribution of the employer for the Judges' Retirement Fund and the Legislators' Retirement Fund. Because this method does not identify or separately amortize unfunded actuarial liabilities, information about funded status is prepared using the entry age cost method and is intended to serve as a surrogate for the funded status of the plan.

[2] The State is a non-employer contributor to the State Teacher's Retirement Defined Benefit Program Fund, a cost-sharing multiple-employer plan. The annual pension cost includes the amount related to both the State and the local government employers. The notion of NPO does not apply to cost-sharing employer plans. According to the provisions of the Education Code, the State and local government employers contributed $536 million and $2.3 billion, respectively, for the year ending June 30, 2009. Based on the most recent actuarial valuation, dated June 30, 2008, current statutory contributions are sufficient to fund normal costs but are not expected to be sufficient to amortize the unfunded actuarial obligation. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions, and other experience that may differ from the actuarial assumptions.

Legislators' Retirement Fund[1]	State Teachers' Retirement Defined Benefit Program Fund[2]
June 30, 2008	June 30, 2008
Aggregate Cost	Entry Age Normal
None	Level % of Payroll, Open
None	30 years
Smoothed Market Value	Expected Value, With 33% Adjustment to Market Value
7.00 %	8.00 %
3.25	4.25
3.00	3.25
3.00	2.00
—	$ 3,980
—	4,362
—	4,547
—	67 %
—	66
—	63
$ 10	—
10	—
10	—
142	$ 155,215
103	177,734
39	(22,519)
2	27,118
137.9 %	87.3 %
1,950.0 %	(83.0) %

[3] Prior to fiscal year 2007, a variation of the Aggregate Cost Method was used to determine the ARC for the Judges' Retirement Fund. Effective fiscal year 2007, the Traditional Aggregate Cost Method was used to determine the ARC.

[4] The actuarial assumption for the investment rate of return was reduced from 7.0% to 4.5% to reflect the funding of the JRF on a pay-as-you-go basis.

NOTE 24: POSTEMPLOYMENT HEALTH CARE BENEFITS

A. State of California Other Postemployment Benefits Plan

Plan Description: The primary government and certain discretely presented component units provide health benefits (medical and prescription drug benefits) and dental benefits to annuitants of retirement systems through a substantive single-employer defined benefit plan to which the primary government contributes as an employer. The primary government also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by the retirees, the primary government has no liability. The discretely presented component units represent 3.4% of plan participation. The design of health and dental benefit plans can be amended by the California Public Employees' Retirement System (CalPERS) Board of Administration and the Department of Personnel Administration, respectively. Employer and retiree contributions are governed by the primary government and can be amended by the primary government through the Legislature. The plan is not accounted for as a trust fund because an irrevocable trust has not been established for the plan. The plan does not issue a separate report.

Fifty-eight county superior courts (trial courts) are included in the primary government. However, each trial court is a separate employer for GASB Statement 45 reporting purposes. Fifty-one trial courts have a single-employer defined benefit plan, six trial courts (Amador, Fresno, Modoc, San Benito, San Bernardino, and Stanislaus) have no plan, and one trial court (San Diego) has a cost-sharing multiple-employer defined benefit plan. These plans have separate biennial actuarial valuations, are not accounted for in a trust fund, and do not issue separate reports.

To be eligible for these benefits, first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. As of June 30, 2009, approximately 141,900 annuitants were enrolled to receive health benefits and approximately 116,400 annuitants were enrolled to receive dental benefits. As of June 30, 2008, the trial courts had approximately 2,700 enrolled retirees and spouses.

Funding Policy: The contribution requirements of plan members and the State are established and may be amended by the Legislature. In accordance with the California Government Code, the State generally pays 100% of the health insurance cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the California Government Code does not specify the State's contribution toward dental insurance costs, the State generally pays all or a portion of the dental insurance cost for annuitants, depending upon the completed years of credited state service at retirement and the dental coverage selected by the annuitant. The State and trial courts fund the cost of providing health and dental insurance to annuitants on a pay-as-you-go basis. Each of the trial courts determines its respective retirees' benefits and benefit levels as well as the funding policy for its respective plan. The maximum 2009 monthly State contribution was $478 for one-party coverage, $909 for two-party coverage, and $1,167 for family coverage. The 2008 monthly contribution rate for the trial courts with single-employer defined benefit plans—the latest year for which information is available—ranged from zero to $1,567. San Diego, a cost-sharing multiple-employer defined benefit plan, had a contribution rate of 2.31% of annual covered pension payroll. For the year ended June 30, 2009, the State contributed $1.4 billion for current premiums. Of this amount, the trial courts represent $22 million and certain discretely presented component units represent $41 million.

Annual OPEB Cost and Net OPEB Obligation: The State's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The State's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2008 and June 30, 2009, including trial courts, is shown in Table 44.

Table 44

Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation
(amounts in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	$ 3,731,701	34.06 %	$ 2,460,718
June 30, 2009	3,871,290	36.19	4,930,848

Table 45 shows the components of the State's net OPEB obligation to the OPEB plan, including trial courts.

Table 45

Schedule of Net OPEB Obligation
June 30, 2009
(amounts in thousands)

	Amount
Annual required contribution	$ 3,858,480
Interest on net OPEB obligation	105,339
Adjustment to annual required contribution	(92,529)
Annual OPEB cost	**3,871,290**
Contributions made	(1,401,160)
Increase in net OPEB obligation	2,470,130
Net OPEB obligation — beginning of year	**2,460,718**
Net OPEB obligation — end of year	**$ 4,930,848**

Funded Status and Funding Progress: As of June 30, 2009—the most recent actuarial valuation date—the actuarial accrued liability (AAL), for benefits was $51.8 billion, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of negative $51.8 billion. The covered payroll (annual payroll of active employees covered by the plan) was $18.5 billion, and the ratio of the UAAL to the covered payroll was negative 281%.

For the trial courts, as of July 1, 2007—the most recent actuarial valuation date—the AAL for benefits was $1.3 billion, with no actuarial value of assets, resulting in an UAAL of negative $1.3 billion. The covered payroll was $989 million, and the ratio of the UAAL to covered payroll was negative 131%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the plan's funded status and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective.

In the June 30, 2009 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual health care cost trend rate of actual increases for 2010 and 9.00% in 2011, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3.00% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

For the trial courts, in the July 1, 2007 biennial actuarial valuations, the entry age normal cost method was used. The actuarial assumptions included a 4.15% investment rate of return and an annual health care cost trend rate of 9.50%, initially, reduced by 0.50% increments to an ultimate rate of 5.00% after nine years. Annual inflation and payroll growth are assumed to be 3.00% and 3.25%, respectively. The UAAL is amortized on a closed basis over 30 years as a level percentage of payroll for 49 trial courts and as a level dollar amount for two trial courts (Alpine and Mendocino).

B. University of California Retiree Health Plan

Plan Description: The University of California, a discretely presented component unit, administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees and their families and survivors (retirees) of the university and its affiliates. The Regents have the authority to establish or amend the plans. Additional information can be obtained from the 2008–09 annual report of the University of California Health and Welfare Plans.

Membership in the University of California Retirement Plan is required to become eligible for retiree health benefits. As of July 1, 2008, the date of the latest actuarial valuation, 33,133 retirees are receiving such benefits.

Funding Policy: The contribution requirements of the university and eligible retirees are established and may be amended by the university. The contribution requirements are based upon projected pay-as-you-go financing. Contributions toward medical and dental benefits are shared between the university and the retiree. The university does not contribute toward the cost of other benefits available to retirees. Employees who meet specific requirements including completed years of credited service may continue their medical and dental benefits into retirement and continue to receive university contributions for those benefits. Active employees do not make any contributions toward the retiree health benefit plans. Retirees pay the excess, if any, of the premium over the applicable portion of the university's maximum contribution.

The university's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2008 and June 30, 2009, are shown in Table 46.

Table 46

Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation - University of California
(amounts in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	$ 1,399,788	20.08 %	$ 1,118,754
June 30, 2009	1,550,562	18.84	2,377,128

Table 47 shows the components of the university's net OPEB obligation to the University of California Health and Welfare Plans.

Table 47

Schedule of Net OPEB Obligation - University of California
June 30, 2009
(amounts in thousands)

	Amount
Annual required contribution	$ 1,600,463
Interest on net OPEB obligation	61,502
Adjustment to annual required contribution	(111,403)
Annual OPEB cost	**1,550,562**
Contributions made	(292,188)
Increase in net OPEB obligation	1,258,374
Net OPEB obligation — beginning of year	**1,118,754**
Net OPEB obligation — end of year	**$ 2,377,128**

Funded Status and Funding Progress: For the University of California, as of July 1, 2008—the most recent actuarial valuation date—the actuarial accrued liability (AAL) for benefits was $13.8 billion, and the actuarial value of assets was $51 million, resulting in an unfunded actuarial accrued liability (UAAL) of negative $13.7 billion. The covered payroll (annual payroll of active employees covered by the plan) was $7.5 billion, and the ratio of the UAAL to the covered payroll was negative 185%.

Actuarial Methods and Assumptions: For the University of California, in the July 1, 2008 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 5.5% investment rate of return, an annual health care cost trend rate of 10.0% to 12.0% initially, depending on the type of plan, reduced by increments to an ultimate rate of 5.0% over nine years, with a projected 3.0% inflation rate. The UAAL is being amortized as a flat dollar amount over 30 years on a closed basis.

NOTE 25: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2009, but prior to the date of the auditor's report.

A. Debt Issuances

In August, October, and November 2009, the primary government issued $6.5 billion in general obligation bonds to retire commercial paper to finance and refinance capital project facilities and other voter-approved costs for public purposes, including: clean water and coastal, river, and beach protection; safe drinking water; children's hospitals; public education facilities; highway safety, traffic reduction, air quality, and port security; clean water, watershed protection, and flood protection; disaster preparedness and flood prevention; literacy improvement; public library construction and renovations; medical research; high-speed rail facilities; and housing and emergency shelter. In addition, the primary government issued $3.4 billion in refunding Economic Recovery bonds in October 2009 to refund a portion of outstanding Economic Recovery bonds issued in 2004 and 2008.

In October and November 2009, the State Public Works Board, an agency whose activities are accounted for as an enterprise fund, issued a total of $1.5 billion in lease revenue bonds to build various public facilities for various state agencies, including the Department of Corrections and Rehabilitation and a California State University campus. In December 2009, the Department of Water Resources issued $169 million in Central Valley Project Water System Revenue Bonds to refund outstanding bonds and redeem commercial paper borrowings.

In September and November 2009, the California State University (CSU) authorized $198 million in bond anticipation notes to finance construction projects at various campuses. As of December 2009, CSU had issued only $51 million of the authorized commercial paper. In December 2009, CSU entered into $152 million in new capital lease obligations for a library project at the San Francisco campus.

In August 2009, the Regents of the University of California, a discretely presented component unit, issued $1.3 billion in general revenue bonds, including $1.0 billion of taxable Build America Bonds and $301 million of tax exempt bonds to finance and refinance certain facilities and projects of the university. Also, in December 2009, the university issued medical center revenue bonds totaling $524 million, including $429 million of taxable Build America Bonds and $95 million of tax exempt bonds to finance and refinance improvements at four medical centers.

B. Cash Management

Commencing July 2, 2009, the State began issuing registered warrants (IOUs) in lieu of warrants (checks) for certain obligations labeled lower-priority by the State Constitution. The registered warrants, which bore interest, were not scheduled to be redeemed until October 2, 2009.

In August 2009, the State issued $1.5 billion of interim revenue anticipation notes (RANs). The proceeds from the interim RANs permitted the early redemption of the outstanding registered warrants on September 4, 2009. In late September 2009, the primary government issued RANs of $8.8 billion, of which $2.8 billion will mature on May 25, 2010, and $6.0 billion will mature on June 25, 2010. The proceeds from these notes will help fund cash flow needs of the 2009-10 fiscal year and redeem the interim RANs that matured on October 5, 2009.

C. Other

The amended 2009 Budget Act that was enacted in July 2009 included spending reductions, program eliminations, revenue increases, and other measures meant to close a $60.0 billion budget gap. The 2010-11 Governor's Budget proposes a combination of spending reductions, alternative funding, fund shifts, and receipt of additional federal funds to close its estimated $19.9 budget shortfall. The Governor has declared a fiscal emergency and called the Legislature into special session in order to close the budget gap as soon as possible. In addition to program spending reductions and eliminations, the following are some other significant budget solutions:

- Unpaid furloughs of state employees for three days each month were ordered and commenced on July 1, 2009—an additional day added to the two days previously ordered.

- The State exercised its borrowing authority under Proposition 1A of 2004 to borrow $1.9 billion of property tax revenues from local agencies. The borrowed sums must be repaid with interest by the end of June 2013.

- The State accelerated the receipts of personal income and corporation taxes by increasing schedules for payroll withholding by 10% and increasing the percentage of estimated payments made in the first two quarters of the year.

- A shift of up to $1.7 billion of local redevelopment funds was authorized to offset State spending for education and other programs in the redevelopment areas.

The high demand for Unemployment Insurance benefits depleted the reserves of the Unemployment Programs Fund. As of June 30, 2009, the State had $1.9 billion in outstanding loans from the U.S. Department of Labor that were used to cover deficits in the Unemployment Programs Fund. As of February 12, 2010, the State had an outstanding loan balance of $7.1 billion and it expects to request additional loans throughout 2010.

In July 2009, Fitch and Moody's Investors Service reduced the State's general obligation bond credit rating from "A-" to "BBB" and from "A2" to "Baa1," respectively. They cited the State's continued inability to achieve timely agreement on budgetary and cash flow solutions to its severe fiscal crisis and its use of IOUs for non-priority payments. In January 2010, Standard and Poor's lowered its rating on the State's general obligation bonds from "A" to "A-" citing the State's severe fiscal imbalance and the impending recurrance of a cash deficiency.

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Required Supplementary Information

Schedule of Funding Progress

(amounts in millions)

Public Employees' Retirement Fund - Primary Government

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2006	$ 81,968	$ 92,557	$ (10,589)	88.6 %	$ 14,790	(71.6) %
June 30, 2007	96,988	100,352	(3,364)	96.6	16,136	(20.8)
June 30, 2008	91,349	107,642	(16,293)	84.9	16,460	(99.0)

Judges' Retirement Fund[1]

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2007	$ 12	$ 2,714	$ (2,702)	0.4 %	$ 119	(2,270.6) %
June 30, 2008	19	3,607	(3,588)	0.5	111	(3,232.4)

Judges' Retirement Fund II

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2006	$ 213	$ 220	$ (7)	96.8 %	$ 125	(5.6) %
June 30, 2007	268	295	(27)	90.8	156	(17.3)
June 30, 2008	335	367	(32)	91.3	175	(18.3)

[1] The Legislators' Retirement Fund (LRF) and the Judges' Retirement Fund (JRF) are funded using the aggregate actuarial cost valuation method. This method does not identify actuarial liabilities and funded ratios. For this reason, no funding progress information is available for either the LRF or the JRF prior to June 30, 2007. Information about funded status is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funding progress of the plan.

[2] The trial courts reporting is based on 51 individual biennial actuarial valuations as of July 1, 2007.

Legislators' Retirement Fund[1]

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2007	$ 142	$ 102	$ 40	139.2 %	$ 2	2,000.0 %
June 30, 2008	142	103	39	137.9	2	1,950.0

State Teachers' Retirement Defined Benefit Program

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2006	$ 131,237	$ 150,872	$ (19,635)	87.0 %	$ 24,240	(81.0) %
June 30, 2007	148,427	167,129	(18,702)	88.8	25,906	(72.2)
June 30, 2008	155,215	177,734	(22,519)	87.3	27,118	(83.0)

Other Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
Primary government and certain component units						
June 30, 2007	$ —	$ 47,878	$ (47,878)	— %	$ 17,940	(266.9) %
June 30, 2008	—	48,220	(48,220)	—	17,890	(269.5)
June 30, 2009	—	51,820	(51,820)	—	18,450	(280.9)
Trial Courts [2]						
July 1, 2007	—	1,291	(1,291)	—	989	(130.6)

Schedule of Funding Progress (continued)

(amounts in millions)

University of California Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
July 1, 2007	$ —	$ 12,534	$ (12,534)	— %	$ 6,913	(181.3) %
July 1, 2008	51	13,800	(13,749)	0.4	7,450	(184.6)

Infrastructure Assets Using the Modified Approach

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 34, the State uses the modified approach to report the cost of its infrastructure assets (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for roads and bridges but capitalizes all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs are expensed and not capitalized.

A. Infrastructure Asset Reporting Categories

The infrastructure assets reported in the State's financial statements for the fiscal year ending June 30, 2009, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling $59.2 billion, land purchased for highway projects totaling $11.9 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $5.4 billion.

Donation and Relinquishment: Donation and relinquishment activity affects the inventory of statewide lane miles, land, and/or bridges as adjustments to the infrastructure assets and/or land balance in the State's financial statements. There were no donations and there were immaterial relinquishments for the fiscal year ending June 30, 2009.

B. Condition Baselines and Assessments

1. Bridges

The State uses the Bridge Health Index—a numerical rating scale from 0 to 100 that uses element-level inspection data—to determine the aggregate condition of its bridges. The inspection data is based on the American Association of State Highway Transportation Officials' (AASHTO) "Commonly Recognized Elements for Bridge Inspection."

From a deterioration standpoint, the Bridge Health Index (BHI) represents the remaining asset value of the bridge. A new bridge that has 100% of its asset value has a BHI of 100. As a bridge deteriorates over time, it loses asset value, as represented by a decline in its BHI. When a deteriorated bridge is repaired, it will regain some (or all) of its asset value and its BHI will increase.

The State's established condition baseline and actual BHI for fiscal years 2006-07 through 2008-09 are shown in the following table.

Fiscal Year Ending June 30	Established BHI Baseline*	Actual BHI
2007	80.0	94.3
2008	80.0	94.3
2009	80.0	94.1

* The actual statewide Bridge Health Index (BHI) should not be lower than the minimum BHI established by the State.

The following table provides details on the State's actual BHI as of June 30, 2009.

BHI Description	Bridge Count	Percent	Network BHI
Excellent	6,258	51.02 %	99.9
Good	4,727	38.54	96.1
Acceptable	895	7.30	85.4
Fair	214	1.74	76.1
Poor	172	1.40	62.3
Total	**12,266**	**100.00 %**	

2. Roadways

The State conducts a periodic pavement condition survey, which evaluates ride quality and structural integrity and identifies the number of distressed lane miles. The State classifies its roadways' pavement condition by the following descriptions:

1. Excellent/good condition – minor or no potholes or cracks.
2. Fair condition – moderate potholes or cracks.
3. Poor condition – significant or extensive potholes or cracks.

Statewide lane miles are considered "distressed lane miles" if they are in either fair or poor condition. The actual distressed lane miles are compared to the established condition baseline to ensure that the baseline is not exceeded.

The State's established condition baseline and actual distressed lane miles from the last three pavement-condition surveys are shown in the following table.

Condition Assessment Date[1]	Established Condition Baseline Distressed Lane Miles (maximum)[2]	Actual Distressed Lane Miles	Actual Distressed Lane Miles as Percent of Total Lane Miles
July 2005	18,000	12,624	25.5 %
December 2006	18,000	13,845	27.9
March 2008	18,000	12,998	26.3

[1] Condition assessment for the State's established condition baseline and actual distressed lane miles is being reported as of the *State of the Pavement* report publication date.

[2] The actual statewide distressed lane miles should not exceed the maximum distressed lane miles established by the State.

The following table provides details on the State's actual distressed lane miles as of the last pavement-condition survey.

Pavement Condition	Lane Miles	Distressed Lane Miles
Excellent/Good	36,479	—
Fair	981	981
Poor	12,017	12,017
Total	**49,477**	**12,998**

C. Budgeted and Actual Preservation Costs

The estimated budgeted preservation costs represent the preservation projects approved by the California Transportation Commission and the State's scheduled preservation work for each fiscal year. The actual preservation costs represent the cumulative cost to date for the projects approved and work scheduled in each fiscal year. Prior to the 2008-09 fiscal year, the State excluded the annual expenditures for one of its bridges from preservation costs. Beginning in the 2008-09 fiscal year, the State included the expenditures for the bridge in both budgeted and actual preservation costs and restated the costs for previous years.

The State's budgeted and actual preservation cost information for the most recent and four previous fiscal years is shown in the following table.

Fiscal Year Ending June 30	Estimated Budgeted Preservation Costs (in millions)	Actual Preservation Costs (in millions)
2005	$ 1,430	$ 1,270
2006	2,406	2,038
2007	2,694	2,015
2008	2,956	1,318
2009	2,910	774

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Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2009
(amounts in thousands)

	General			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ 10,197,000	$ 10,197,000	$ 9,535,679	$ 661,321
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	113,000	113,000	107,249	5,751
Inheritance, estate, and gift taxes	—	—	245	(245)
Insurance gross premiums tax	1,831,000	1,831,000	2,053,850	(222,850)
Vehicle license fees	26,634	346,000	244,825	101,175
Motor vehicle fuel tax	—	—	—	—
Personal income tax	46,807,000	46,792,000	43,558,615	3,233,385
Retail sales and use taxes	27,778,000	26,332,000	23,753,364	2,578,636
Other major taxes and licenses	959,375	355,000	326,702	28,298
Other revenues	2,304,358	2,336,315	2,390,510	(54,195)
Total revenues	**90,016,367**	**88,302,315**	**81,971,039**	**6,331,276**
EXPENDITURES				
State and consumer services	577,171	570,355	545,149	25,206
Business and transportation	1,029,990	1,029,824	1,029,414	410
Resources	1,095,365	1,614,148	1,294,758	319,390
Health and human services	31,504,570	30,870,179	28,396,603	2,473,576
Correctional programs	10,224,733	9,730,831	9,545,089	185,742
Education	48,067,392	43,048,060	43,036,417	11,643
General government:				
Tax relief	769,110	679,585	656,053	23,532
Debt service	4,315,715	4,390,634	4,366,749	23,885
Other general government	4,500,226	4,317,063	4,192,659	124,404
Total expenditures	**102,084,272**	**96,250,679**	**93,062,891**	**3,187,788**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	1,054,986	—
Transfers to other funds	—	—	(565,451)	—
Other additions and deductions	—	—	170,201	—
Total other financing sources (uses)	**––**	**––**	**659,736**	**––**
Excess (deficency) of revenues and other sources over (under) expenditures and other uses	—	—	(10,432,116)	—
Fund balances, July 1, 2008 (restated)	**—**	**—**	**5,688,751**	**—**
Fund balances, June 30, 2009	**$ ––**	**$ ––**	**$ (4,743,365)**	**$ ––**

Federal				Transportation			
Budgeted Amounts		**Actual**	**Variance With**	**Budgeted Amounts**		**Actual**	**Variance With**
Original	**Final**	**Amounts**	**Final Budget**	**Original**	**Final**	**Amounts**	**Final Budget**
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
53,598,270	53,598,270	53,598,270	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	3,565,427	3,289,292	3,162,299	126,993
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	3,436,361	3,333,621	3,109,284	224,337
225	225	225	—	607,455	439,977	442,729	(2,752)
53,598,495	**53,598,495**	**53,598,495**	**—**	**7,609,243**	**7,062,890**	**6,714,312**	**348,578**
49,838	49,838	49,838	—	117,002	115,635	109,199	6,436
3,166,446	3,166,446	3,166,446	—	7,607,398	7,566,300	7,048,521	517,779
196,391	196,391	196,391	—	152,006	153,347	141,216	12,131
34,720,542	34,720,542	34,720,542	—	141,689	141,656	141,068	588
13,643	13,643	13,643	—	—	—	—	—
7,742,840	7,742,840	7,742,840	—	6,805	625,592	624,664	928
—	—	—	—	—	—	—	—
—	—	—	—	1,000	1,000	345	655
4,804,396	4,804,396	4,804,396	—	2,580,093	2,579,601	2,546,227	33,374
50,694,096	**50,694,096**	**50,694,096**	**—**	**10,605,993**	**11,183,131**	**10,611,240**	**571,891**
—	—	13,645,602	—	—	—	8,165,075	—
—	—	(16,546,328)	—	—	—	(7,383,402)	—
—	—	(3,448)	—	—	—	10,358,250	—
—	**—**	**(2,904,174)**	**—**	**—**	**—**	**11,139,923**	**—**
—	—	225	—	—	—	7,242,995	—
—	**—**	**10,266**	**—**	**—**	**—**	**23,124,533**	**—**
$ —	**$ —**	**$ 10,491**	**$ —**	**$ —**	**$ —**	**$ 30,367,528**	**$ —**

Reconciliation of Budgetary Basis Fund Balances of the General Fund and the Major Special Revenue Funds to GAAP Basis Fund Balances

June 30, 2009
(amounts in thousands)

		Special Revenue Funds	
	General	**Federal**	**Transportation**
Budgetary fund balance reclassified into			
GAAP statement fund structure	**$ (4,743,365)**	**$ 10,491**	**$ 30,367,528**
Basis difference:			
Interfund receivables	123,275	—	1,810,601
Loans receivable	109,673	85,026	—
Interfund payables	(3,007,937)	—	—
Escheat property	(763,742)	—	—
Bonds authorized but unissued	—	—	(25,444,600)
Tax revenues	837,500	—	—
Other	1,278	—	66,659
Timing difference:			
Liabilities budgeted in subsequent years	(8,640,578)	(11,908)	(141,408)
GAAP fund balance (deficit), June 30, 2009	**$ (16,083,896)**	**$ 83,609**	**$ 6,658,780**

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

The State annually reports its financial condition based on a Generally Accepted Accounting Principles (GAAP) basis and on the State's budgetary provisions (budgetary basis). The Budgetary Comparison Schedule, General Fund and Major Special Revenue Funds reports the original budget, the final budget, the actual expenditures, and the variance between the final budget and the actual expenditures, using the budgetary basis of accounting.

On a budgetary basis, individual appropriations are charged as expenditures when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year in which goods and services are received. The Budgetary Comparison Schedule includes all of the current-year expenditures for the General Fund and major special revenue funds as well as their related appropriations that are legislatively authorized annually, continually, or by project. On a budgetary basis, adjustments for encumbrances are budgeted under other general government, while the encumbrances relate to all programs' expenditures.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the *Comprehensive Annual Financial Report Supplement*, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2400.121. This report includes the comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the *Comprehensive Annual Financial Report Supplement* is available upon request from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

Reconciliaton of Budgetary Basis With GAAP Basis

The reconciliation of Budgetary Basis fund balances of the General Fund and the major special revenue funds to GAAP Basis fund balances are presented on the previous page and are explained in the following paragraphs.

The beginning fund balances for the General Fund, Federal Fund, and Transportation Fund on the budgetary basis are restated for prior-year revenue adjustments and prior-year expenditure adjustments. A prior-year revenue adjustment occurs when the actual amount received in the current year differs from the amount of revenue accrued in the prior year. A prior-year expenditure adjustment results when the actual amount paid in the current year differs from the prior-year accrual for appropriations whose ability to encumber funds has lapsed in previous periods. The beginning fund balance on a GAAP basis is not affected by these adjustments.

Basis Difference

Interfund Receivables and Loans Receivable: Loans made to other funds or to other governments are normally recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to interfund receivables caused a $123 million increase to the fund balance in the General Fund and a $1.8 billion increase to the fund balance in the Transportation Fund. The adjustments related to loans receivable caused increases of $110 million in the General Fund and $85 million in the Federal Fund.

Interfund Payables: Loans received from other funds are normally recorded as revenues on a budgetary basis. However, in accordance with GAAP, these loans are recorded as liabilities. The adjustments related to interfund payables caused a $3.0 billion decrease to the budgetary fund balance in the General Fund.

Escheat Property: A liability for the estimated amount of escheat property expected to ultimately be reclaimed and paid is not reported on a budgetary basis. The liability is required to be reported in the interfund payables on a GAAP basis. This adjustment caused a $764 million decrease to the General Fund balance.

Bonds Authorized but Unissued: In the year that general obligation bonds are authorized by the voters, the full amount authorized is recognized as revenue on a budgetary basis. In accordance with GAAP, only the amount of bonds issued each year is reported as an other financing source. The adjustments related to bonds authorized but unissued caused a $25.4 billion decrease to the fund balance in the Transportation Fund.

Tax Revenues: Estimated tax payments are accrued on a budgetary basis pursuant to Chapter 751, Statutes of 2008. However, in accordance with GAAP, tax payments are accrued based on the portion of estimated net final payments related to the fiscal year. This adjustment caused a fund balance increase of $838 million in the General Fund.

Other: Certain other adjustments and reclassifications are necessary in order to present the financial statements in accordance with GAAP. The other adjustments caused fund balance increases of $1 million in the General Fund and $67 million in the Transportation Fund.

Timing Difference

Liabilities Budgeted in Subsequent Years: On a budgetary basis, the primary government does not accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused fund balance decreases of $8.6 billion in the General Fund, $12 million in the Federal Fund, and $141 million in the Transportation Fund. The large decrease in the General Fund primarily consists of $5.3 billion for deferred apportionment payments to K-12 schools and community colleges, $1.7 billion for medical assistance, $411 million for pension contributions, and $344 million in tax amnesty program overpayments.

We conducted this audit to comply with Section 8546 of the California Government Code. The Independent Auditor's Report provides the opinions we expressed on the State of California's basic financial statements.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

Date:	March 10, 2010
Deputy:	John F. Collins II, CPA
Principals:	John Baier, CPA, Audit Principal Mike Tilden, CPA, Audit Principal
Team Leads:	Nasir Ahmadi, CPA Mary Camacho, CPA Nicholas D. Cline Angela Dickison, CPA Theresa Farmer, CPA Nicholas Kolitsos, CPA, MBA Jennifer D. Loos, CPA Rosa I. Reyes
Staff:	Sally Arizaga Michelle Baur, CISA Vance William Cable Miguel Guardian, CPA, CIA Carol Hand Michael Henson Vern L. Hines Rebecca Honeywell Tina Kobler Charles H. Meadows III Wilmot Mitchell Dan Motta Mark E. Pittman Sandra L. Relat, CPA Amber Ronan Kat V. Scoggin Katie Tully Shannon Wallace Benjamin W. Wolfgram, ACDA
Legal Counsel:	Scott A. Baxter, JD

For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at (916) 445-0255.

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press